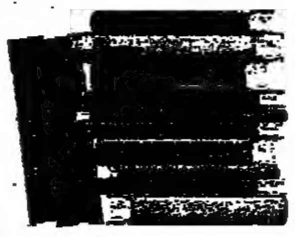
FINANCIAL TIMES

Start the week with...

The Bull Market
Nothing lasts forever
Tony Jackson, Page 20



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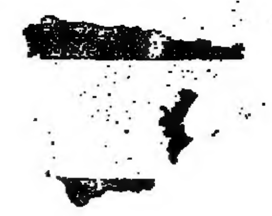

Today's Survey
Valencia
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World Business Newspaper http://www.FT.com MONDAY DECEMBER 9 1996

US row with EU mars world trade technology talks

World Trade Organisation efforts to reach a deal on free trade in information technology products are at risk after the European Union insisted on linking any IT package to other trade issues. Europe's stance was strongly criticised by the US. The proposed accord, aimed at scrapping tariffs on most IT products by 2000, was billed as the highlight of the WTO meeting. Page 22 ; Search for common ground, Page 6

Club Mediterranée's prospects of being taken over rise sharply from today after last week's dismantling of a shareholder pact which controlled more than 35 per cent of voting rights in the French leisure group. Page 23

German employers spurn deal: Germany's engineering employers voted not to back a regional wage deal agreed with IG Metall, the country's biggest union. The move raises the risk of nationwide strikes next year. Page 2

Major rejects 'phoney' truce: UK prime minister John Major said he would not accept a "phoney ceasefire" from the Irish Republican Army, which opposes British rule in Northern Ireland. His statement came on the eve of talks seen as a last attempt to revive the faltering Northern Ireland peace initiative. Page 22

Airliner crash-lands in London: A KLM Royal Dutch Airlines Fokker aircraft slewed off the runway at London's Heathrow airport after its undercarriage collapsed on landing. Four crew and 41 passengers were safely evacuated. Many flights were delayed after the incident.

BA-American Airlines: British Airways and American Airlines would be allowed to sell the airport take-off and landing slots they must surrender as a condition of their planned global alliance, the UK department of trade and industry indicated. A slot sale could generate at least £168m ($275.5m). Page 23

Two held for shooting soccer fan: Two Austrian men were arrested on suspicion of shooting at a group of Manchester United soccer fans, wounding two of them.

Tunnel service resumes: The Le Shuttle car service through the Channel Tunnel will re-open tomorrow – but only to drivers booking in advance. The service will be hourly instead of four an hour before the fire three weeks ago. Page 8; Eurostar back on track, Page 18

Greece faces shortages: Greek farmers, campaigning for more government aid, strengthened an 11-day blockade that has hit road and rail links. Industries complained of fuel shortages and merchants warned they might be unable to pay salaries.

Russia may buy Iraqi oil: Russian companies are negotiating to buy Iraqi crude under the UN oil-for-food plan under which Iraqi oil will soon return to the market. UN secretary-general Boutros Boutros-Ghali is set to approve the Iraqi oil-for-food plan today.

Violence in South Africa: At least 35 people were killed in faction fighting at a squatter camp next to a platinum mine near Rustenburg in South Africa's North West province.

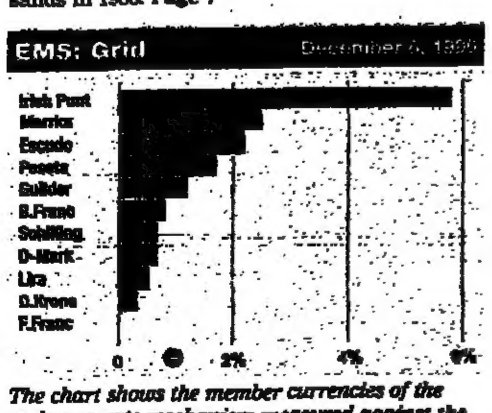
Ancient grave site found: Archaeologists have discovered a burial site in Egypt's Nile delta which was used in Pharaonic and Graeco-Roman times, according to an Egyptian press report. They have found jewels, gold foil, sarcophagi and clay pots 15m below ground.

European monetary system: The Italian lira, in its second week back in the European exchange rate mechanism, dropped three places in the EMS grid. The Finnish Markka took second place from the escudo, while the Austrian Schilling rose two places. Currencies, Page 31

China trade troubles: Beijing is delaying retaliatory suspension of imports of some US textiles, farm goods and alcoholic drinks by a month in view of further talks between the two sides. It also said $100m of exports and thousands of jobs were at risk in a dispute with the European Union. Page 6

Rangoon campuses sealed off: Burmese soldiers and police sealed off Rangoon's two main universities after the most violent clashes in the capital since a crackdown killed thousands in 1988. Page 7

EMS: Grid December 6, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S.Africa	R12.00
Czech Rp	Kc70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	Ekr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zl6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils750	Portugal (m'land)	Es265	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

Juppé says defence and consumer divisions could be separated to speed up sell-off

France may split Thomson for sale

By David Buchan, Andrew Gowers and Quentin Peel in Paris

France's shock absorber Page 21; CIC sale Page 26

Thomson, the defence and consumer electronics group that the French government is trying to privatise, may be split in two to ensure a speedy sale of its Thomson-CSF defence division, according to Mr Alain Juppé, prime minister.

In an interview with the Financial Times, Mr Juppé promised a rapid relaunch for the privatisation after the collapse last week of the first attempt to sell Thomson.

And he stressed the "industrial logic" of his proposal for the Lagardère missile group to take Thomson-CSF.

The proposed sale was cancelled last Wednesday after France's independent privatisation commission criticised Lagardère's plan to sell Thomson Multimedia, the consumer electronics division, on to Daewoo of Korea. The commission complained that neither the government nor Lagardère could legally hold Daewoo to its promises to increase jobs and investment at Multimedia.

In considering a fresh privatisation, Mr Juppé said one possible "hypothesis" was to sell the two halves of Thomson separately, with privatisation of the heavily indebted Multimedia coming after that of the profitable Thomson-CSF.

"When one wants to privatise a company that has more debts than assets, it is more difficult," he said. "It is the privatisation of Multimedia that poses a problem.

"I think, to the extent that one looks properly at this dossier [Multimedia], that it is clear that it requires a significant recapitalisation of this enterprise, before putting it on the market."

Any decision to split Thomson would reverse the government's position since the start of the privatisation: that the two parts had to be sold together, with the profitable Thomson-CSF subsidising the lossmaking Multimedia.

But it would appear to offer a chance of fusing the defence division with Lagardère's Matra subsidiary as Mr Juppé wished. "The industrial logic of the rapprochement of Thomson-CSF and Lagardère has not been criticised by anyone," the prime minister said.

Asked whether his comments did not prejudge the outcome of a new bidding competition for Thomson, Mr Juppé said: "No, I am only stating an observation."

But his words may discourage the Alcatel telecommunications group, which the government passed over in favour of Lagardère, from bidding for Thomson again – though the government has promised "a new basis" for the sale.

Mr Juppé vigorously denied that cancelling the sale of Multimedia to Daewoo reflected French hostility to foreign or Korean investment.

"It is not because Daewoo is Korean that it has been ruled out, but because the privatisation commission estimated that its commitments were not sufficiently clear," he said.

The government still plans to recapitalise the Thomson SA state holding company.

Thomson SA's shareholders, essentially the French government and state-owned France Télécom, agreed last Friday to increase its capital by FFr11bn ($2bn) before May 1997. Of this, FFr9.9bn – under the terms of the first privatisation – was destined to prop up Multimedia. This state aid has yet to win approval by the European Commission.

Euro-rebels warned they could force UK election

PM stands firm on single currency policy

By George Parker and Robert Peston in London

Mr John Major, UK prime minister, yesterday turned decisively against his Euro-sceptic backbenchers, warning he would not bow to pressure to rule out sterling's membership of a single currency during the next parliament.

In his strongest rebuke yet to his critics on the Conservative benches, the prime minister warned they could force an early election if they continued to destabilise the government.

He said he would always put the national interest before party interest, adding: "If they don't support us, then we may have a general election."

Mr Major, speaking in a BBC interview, was relaxed but defiant as he came down on the side of his pro-European chancellor of the exchequer, Mr Kenneth Clarke, on the question of tactics towards a European single currency.

Tory Euro-sceptics warned the infighting would continue. They plan to hold a series of meetings this week ahead of what promises to be an explosive debate on the single currency on Wednesday.

Sir George Gardiner said "the strife goes on", adding that the prime minister had been "stitched up" by Mr Clarke and Mr Michael Heseltine, deputy prime minister. Mr Terry Dicks, who has threatened to resign the whip over Europe, said he felt "insulted" by Mr Major.

John Major before yesterday's interview on television

Mr John Redwood, who lost to Mr Major in the Tory leadership contest in 1995, said: "Of course we are going to stay in the talks – the issue is when are we going to say the whole thing is based on a fudge and is not going to work."

Mr Major insisted he would stay in negotiations over the single currency, comparing the talks to a "poker game" in which he needed to keep his hand hidden. He said that if Britain was to have a strong voice at the table, it needed to retain the option to take part in the first stage of the euro, scheduled for 1999.

He insisted that Britain's national interest was at stake if other European Union countries pressed ahead with a flawed currency. He said currency speculators could switch to stronger European currencies, like sterling or the Swiss Franc, wreaking havoc with those economies.

He dismissed calls from some Tory backbenchers to dismiss Mr Clarke: "He is a very fine chancellor, and he is delivering the best economic figures for a very long time."

Mr Major also delivered what was, in effect, a rebuff to several cabinet colleagues, led by the home secretary, Mr Michael Howard, and including Mr Peter Lilley, social security secretary, and Mrs Gillian Shephard, education secretary, who had been pressing him to signal that sterling's membership was unlikely by pointing out that several countries were "fudging" the financial criteria of joining the currency.

Mr Major told Tory Euro-sceptics they had to choose between him and Mr Tony Blair, opposition Labour leader, over who was best placed to defend Britain's interests at the June EU summit in Amsterdam.

Lex, Page 22

Thousands of Serb demonstrators marching through Belgrade yesterday in continuing protests against President Slobodan Milosevic over disputed local elections Report, Page 22 Picture: AP

US stocks due for nervous start today

By Lisa Bransten in New York

US financial markets are expected to open today with some volatility left over from a share price scare on Friday, but analysts do not see that nervousness as a precursor to a more serious fall. European markets are likely to follow this US lead, because it was concern about high US share and bond prices that started the worldwide slide last week.

Late on Friday the US markets staged a sharp rebound after Europe had closed and shares managed to regain almost two-thirds of the 145 points that the Dow Jones Industrial Average fell on Friday morning.

Europe and Japan will get their first chance to react to the late US recovery today. Analysts were relaxed about today's trading prospects.

Market falls around the world followed remarks by Mr Alan Greenspan, chairman of the US Federal Reserve, in a speech on Thursday evening

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World stocks, Page 37

Liquidators to BCCI set to make $1.35bn payout

By Jim Kelly in London

Liquidators to the failed Bank of Credit and Commerce International are tomorrow expected to pay $1.35bn to more than 25,000 of the bank's creditors, five years after its spectacular collapse.

The payment represents 24.5 per cent of creditors' losses and will be welcomed by long-suffering victims of the collapse in 1991, which was the result of the biggest banking fraud in history.

Liquidators based in London said the final dividend, expected to be between 30 and 40 per cent, could in fact be "better". This was a surprisingly optimistic signal from normally cautious forecasters.

Several factors have improved the financial prospects for the bank's 100,000 creditors. It is understood that more than $1bn worth of potential claims have not been made. Many accounts have remained untouched, supporting speculation that some were used to launder money.

Payouts in excess of $245,000 will be wired to creditors tomorrow. The biggest will be $76m to the UK's Depositor Protection Board, which has already compensated 17,000 creditors directly. The rest of the money will be paid in cheques by post – the smallest being $35 – sent to creditors in more than 130 countries.

"This is possibly the biggest insolvency payout in history," said Mr Steve Ackers, one of the liquidators, with accountants Deloitte & Touche in London.

Liquidators were originally expecting to face claims of $10.5bn. They now expect the final figure to be nearer $9bn because many of the claims, which they are still processing, may be rejected as spurious. Other claims will not be met because claimants have settled for payment outside the "pool" agreement created by the liquidators.

Other groups of creditors, in Bahrain, Japan, Cyprus, Germany and China, have yet to decide if they will take part in the pool. The liquidators have recently received two large recoveries of BCCI assets. The US authorities have released $65m of forfeit assets in a discretionary payment which brings to $570m the total payments so far. Further repayments are expected. Creditors in the United Arab Emirates have also joined the pool arrangement, bringing assets of $100m.

The liquidators are also pursuing a series of legal actions on behalf of creditors – including those against the bank's auditors at accountants Price Waterhouse, and regulators such as the Bank of England.

If the final dividend does significantly exceed 40 per cent it will help offset criticism of the liquidators by creditors who have complained about delays in paying a dividend and what they see as excessive accountants' fees.

"There was petty cash in the tills when we walked through the doors," said Mr Ackers. It is understood that liquid assets were around $40m after the bank's collapse. Gross recoveries to date are understood to be around $4bn.

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NEWS: EUROPE

Chirac hopes to pave way for EU summit compromise on Emu penalties

Appeal to Kohl on stability pact

By David Buchan, Quentin Peel and Andrew Gowers in Paris

The French government wants a deal this week with Germany over the "stability pact" for the planned euro-zone, because it fears deadlock over the German proposal could sour relations inside the European Union.

President Jacques Chirac will raise the issue with Chancellor Helmut Kohl at today's Franco-German summit in Nuremberg.

Officials in Paris hope this will pave the way at Friday's European Union summit in Dublin for Germany to compromise on its proposal for strict financial penalties against any member of the future monetary union breaking budget guidelines.

If the disagreement pitting Germany against most of its EU partners, including France, is not settled by the end of this week, French officials warn tension within the EU could increase, with both sides in the controversy hardening their position.

In an interview with the Financial Times, Mr Alain Juppé, the French prime minister who flies to Nuremberg with Mr Chirac today, acknowledged: "Some Germans fear that the euro will be less good than the D-Mark, so they desire safeguards everywhere." But he said: "I think this [fear] should be settled through confidence-building measures, and not over-rigid mechanisms."

Arguing more broadly for Europe's politicians to have some guiding influence over the future European Central Bank (ECB), Mr Juppé said: "The basis of the French position is that we don't want all decisions on economic, budgetary, fiscal and monetary policy to be shaped by a technocratic, automatic system under the sole authority of the ECB." France wants governments to influence the running of the euro-zone.

French officials detect competition between the German finance ministry and the Bundesbank to outdo each other, and evidently hope Mr Kohl will see France's point and will rein in these financial disciplinarians. The officials express surprise that Germany should make escape from a "stability pact" so hard. Bonn has insisted that only countries with no less than a 2 per cent fall in gross domestic product should escape penalties on their budget deficit over-shoots. France, its officials point out, has never suffered a 2 per cent GDP decline in the past 50 years.

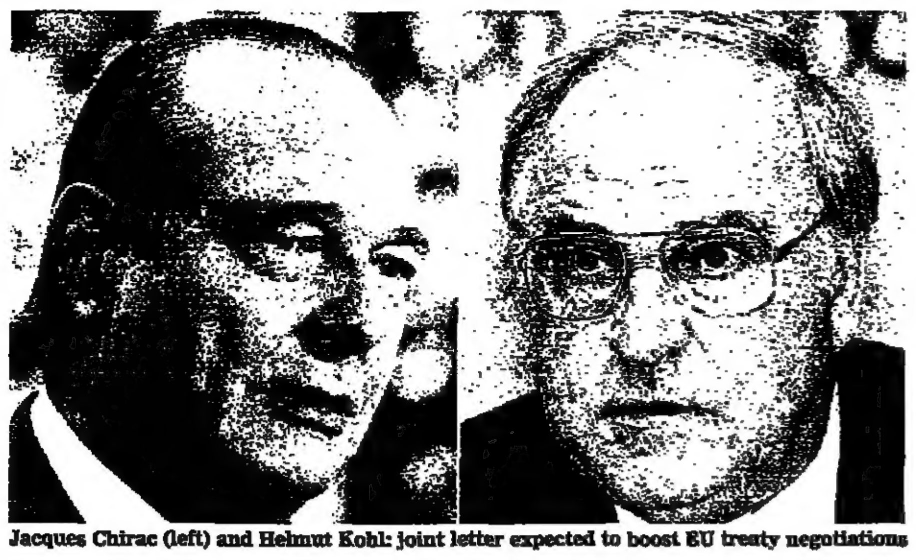
The French and German leaders are also expected today to issue a joint letter, addressed to the Irish presidency of the EU and designed to give an impetus to the intergovernmental conference negotiations on a new EU treaty.

The letter is expected to provide general guidelines on issues such as "reinforced co-operation" in EU foreign policy and internal security.

French and German defence ministers are due to issue a paper on their "common concept of defence and security", aimed at defining how Germany's still largely conscript army can work with the fully professional forces that France plans by the turn of the century.

They will also discuss the future of joint armaments programmes such as military spy satellites and helicopters.

Juppé interview, Page 21



Jacques Chirac (left) and Helmut Kohl: joint letter expected to boost EU treaty negotiations

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German pay deal condemned

By Wolfgang Münchau in Frankfurt

Germany's engineering employers' federation yesterday voted not to endorse a controversial wage deal agreed by its regional affiliate in Lower Saxony and by IG Metall, the country's biggest union, increasing the risk of nationwide strike action next year.

The decision marks a hardening in the employers' negotiating stance in the wage dispute. It also highlights a split within the employers' group, with a gulf opening up between hardliners and a group willing to strike a compromise to avoid strike action.

Gesamtmetall, the engineering employers' federation, voted unanimously to condemn the deal, which includes a guarantee of sick pay at 100 per cent of wages, a 1.5 per cent wage rise from April 1997 and a further 2.5 per cent rise a year later.

Mr Klaus Zwickel, president of IG Metall, and other union leaders had called on Gesamtmetall to endorse the deal as a model for other German regions to adopt. The vote does not scupper the Lower Saxony agreement itself, but ensures the conflict now moves on to other regions.

Mr Werner Stumpfe, president of Gesamtmetall, said yesterday: "I believe that with the [Lower Saxony wage] agreement, we have disappointed the high expectations we have set ourselves to a greater degree than we did in previous wage negotiations."

But Mr Stumpfe acknowledged: "The facts established in Hanover [state capital of Lower Saxony] cannot be removed, and they will inevitably prejudice the future negotiating process."

He said Gesamtmetall had rejected the Hanover pay deal on three grounds.

First, the package, which also included some modest cuts in benefits, would translate into a wage cost rise of about 1 per cent during 1997, while employers are holding out for a zero bottom line increase.

Second, the wage agreement guarantees 100 per cent sick pay, a benefit employers had sought to cut to 80 per cent in line with a recent change in the minimum statutory provisions under German law. Mr Stumpfe said yesterday employers would not accept a deal that would guarantee more than 90 per cent sick pay.

Third, he said the deal also failed to provide more flexibility. Gesamtmetall has previously called for opt-out clauses for companies in financial difficulty. In return employers would have offered some limited job guarantees.

Gesamtmetall's vote is not binding on any regional affiliate, although it constitutes a strong signal. Employers in Bavaria and Baden-Württemberg, Germany's two southernmost states, are currently taking the hardest line among the country's 8,000 engineering employers.

If no agreement is reached, strike action could start between January and March next year – depending on the region – after the expiry of an obligatory no-strike period during the negotiating process.

Concession by France boosts Nato growth

By Bruce Clark, Diplomatic Correspondent

France has made a last-minute concession to the US over next year's diplomatic agenda, but several Franco-American problems remain outstanding as Nato foreign ministers meet tomorrow to chart a course for European security.

The ministers' talks on how fast to enlarge the alliance, and how many sweeteners to offer Russia, will take place in the shadow of a "very serious disagreement" – in the words of Mr Nicholas Burns, the US State Department spokesman – between Paris and Washington about Nato's future structure.

The biggest problem is the status of Nato's southern command, based in Naples, which has always been headed by a US officer. France, backed by Germany, is saying this job should now go to a European, but Washington rules this out.

France, which announced a year ago that it would move closer to Nato's military wing, also differs with Washington over tactics the western bloc should adopt as it expands to the east and tries to reassure Russia.

Following a French concession, however, this week's meeting is expected to agree on July 1997 as the date for a landmark meeting of western leaders to announce names and a swift timetable for enlargement. Until a few days ago, Paris was saying it was premature to set a date for the summit.

By settling on July, the ministers will be virtually locking themselves in to the expansion process, which is expected to incorporate Poland, the Czech republic, Hungary and possibly Slovenia and Romania by April 1999.

Mr William Perry, the US defence secretary, has said he wants Nato to balance its enlargement plan with a series of promises to Russia, including enhanced consultation procedures and a pledge not to move nuclear weapons eastwards.

"I think Nato can and should make a very direct statement... [that] we have no plans to expand the nuclear base in Nato and no need to expand the nuclear base in Nato," Mr Perry said.

Remaining Franco-US differences cast shadow over tomorrow's alliance talks

German and UK officials have floated a three-tier relationship between Nato and Russia, with procedures for exchanging information, consultation on a "16 plus 1" basis and joint decision-making over issues such as peacekeeping.

However, the latest signs are that tomorrow's meeting will hold off from spelling out these proposals in detail to avoid giving Moscow concessions that it can "pocket" at the outset of an elaborate negotiation process.

The US will be pressing its proposal for an "Atlantic partnership council" that would bring together Nato and all the east European nations that co-operate with the western alliance. But French officials fear this could undermine the EU's emerging security policy.

A further threat to plans for an enlarged, Europeanised Nato – laid out in Berlin six months ago – is posed by Greek-Turkish differences.

Turkey has threatened to veto the use of Nato equipment for European-only military missions because Greece is blocking Ankara's desire for a closer relationship with the Western European Union.

Germans in bid to boost car security

By Christopher Bobinski in Warsaw

German car manufacturers are collaborating to develop vehicle security devices to combat the rise in car theft which followed the fall of the iron curtain in 1989.

An industry group is working on electronic devices for cars that would enable frontier officials to tell if a vehicle had been stolen, a UN conference on stolen cars was told last week.

Last year 1m cars were stolen in western Europe, many of them temporarily by "joyriders", suggesting the overall recovery rate was as high as 80 per cent.

However the former Soviet bloc continues to take stolen cars from Europe as well as the US. The US estimates up to 300,000 cars of the 1.5m stolen annually in the US are exported – many of them to Russia, the Ukraine and the Baltic region. The US justice department reports annual losses due to car theft amounting to $7bn.

The German car manufacturers' association (VDA) already has a device which sends a satellite signal to the police identifying the position of a stolen car, but it is expensive. Also under development is a device able to stop a stolen car by remote control.

UN officials from 40 countries who met in Warsaw last week were most concerned, however, to perfect and link databases on stolen cars being installed worldwide by Interpol.

This would enable frontier officials to check more quickly if a car was stolen or not.

A survey by the UN Interregional Crime and Justice Research Institute shows the risk of car theft is highest in Africa, followed by Latin America and central and eastern Europe.

Over the past four years, the steepest rise has been in central and eastern Europe.

هكذا من الأصل

NEWS: EUROPE

Dutch football in disarray as television sports channel folds

Sport 7 is seeking protection from its creditors, reports Gordon Cramb

Dutch football, source of star players for clubs across Europe, was in disarray at the weekend after the collapse of a commercial television channel which had been given exclusive rights to screen big games live.

The board of the country's football association initially offered to resign as the failure of Sport 7, launched only in August, brought to a head a dispute with its biggest member clubs over ownership of broadcast rights it had sold for an estimated Fl 980m ($560m). Governors of the game will learn their fate today.

Sport 7, set up at a cost of more than Fl 100m, said it was seeking protection from its creditors and would end transmission from midnight last night. It was unclear yesterday where, or even whether, this week's matches would be screened. Several clubs may be in financial peril, as players' salaries rose sharply after the deal with Sport 7 was signed.

The fiasco involves some of the Netherlands' top business leaders, and has become a test of Dutch willingness to allow the removal into the private domain of what are seen as national assets. Sport 7's problems began when the government insisted that NOS, the public broadcaster which had previously televised matches, should be given a sub-licence allowing it to air highlights of important contests. The deal had also attracted the attention of European Union competition authorities.

Mr Jan Timmer, head of the Sport 7 supervisory board and until October president of the Philips electronics group, said the channel had "under political pressure lost important aspects of its exclusivity". He also accused league bosses at the KNVB, the football association, of defaulting on their commitments to Sport 7.

Shareholders in the channel include Philips; the KNVB itself; ING, the banking and insurance group; KPN, the privatised posts and telecoms utility; Telegraaf Holding, publisher of the country's biggest selling daily; and Mr Joop van den Ende and Mr John de Mol, who head the Endemol Entertainment company floated to a rapturous reception on the Amsterdam bourse last month.

The two TV producers bought back nearly 20 per cent of Sport 7 from their newly listed vehicle because it was rapidly clouding Endemol's outlook. However, Endemol remained a big supplier of programming to Sport 7, the demise of which will hurt its ambition to broaden its portfolio beyond game shows and talent contests.

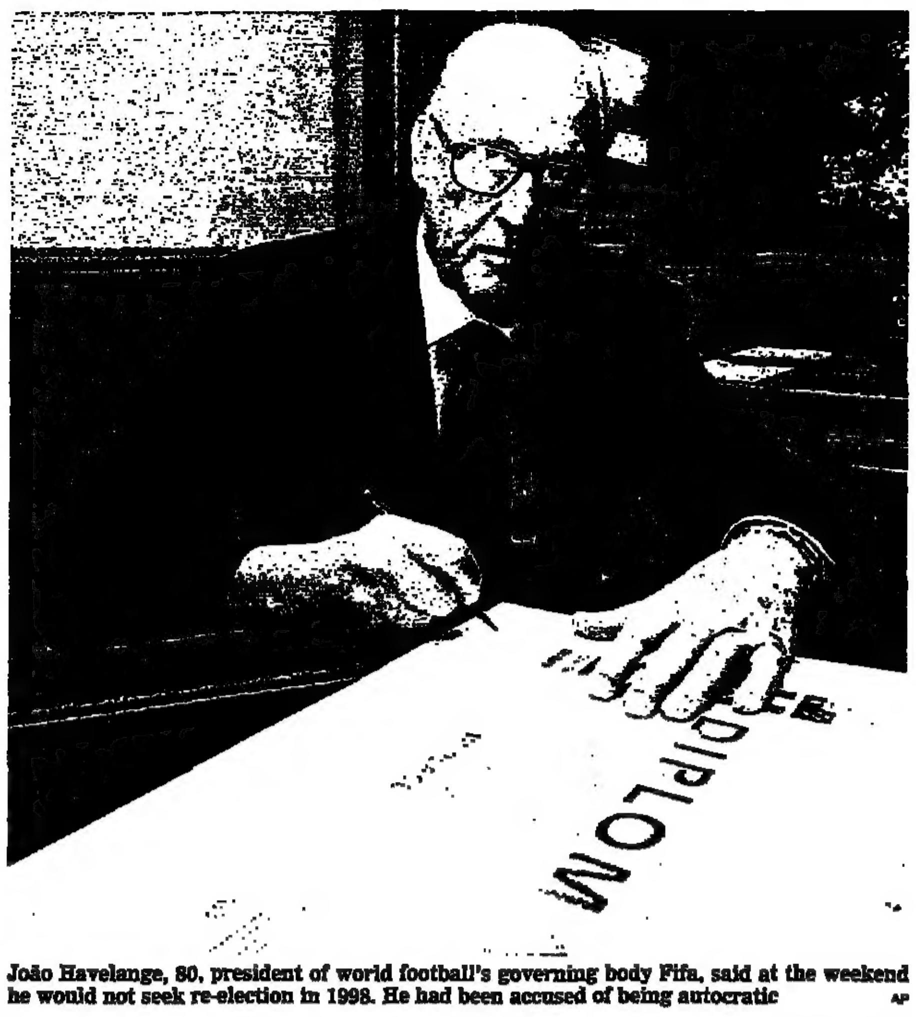
According to one weekend report, Bertelsmann, the German media giant, is among those which have already contacted the KNVB with a view to buying the rights which Sport 7 was abandoning. But the biggest clubs – Ajax of Amsterdam and Rotterdam's Feyenoord, which instituted a court action against the KNVB – dispute that the federation was anyway entitled to sell these. Feyenoord has considered selling the rights to its own home matches separately from any deal struck by its fellow clubs.

The board won majority support among the three dozen member clubs by promising that the Sport 7 deal would pay for new stadiums and help meet salary bills. But with Sport 7 reneging on its seven-year contract and on a Fl 180m bank guarantee to the association, that prospect has been cast into doubt.

The channel was available via local cable providers, through which nearly all Dutch homes receive their TV signal. In Amsterdam, however, Sport 7 could be seen only by subscribers to a premium package needing a set-top decoder. In a country of 15.5m people, the TV audience for football dropped according to one estimate by as much as 1m. Advertisers deserted Sport 7 as a result.

Mr Harry van Raaij, chairman of PSV, the Philips-backed Eindhoven club which currently heads the first division, told De Telegraaf that a loss of confidence in the KNVB meant that "a process of change now has to be set in motion". He said this could involve the creation of a Premier League along English lines.

Percentage football, Page 20



João Havelange, 80, president of world football's governing body Fifa, said at the weekend he would not seek re-election in 1998. He had been accused of being autocratic AP

EUROPEAN NEWS DIGEST

Di Pietro says claims 'a joke'

Mr Antonio Di Pietro, the former Italian magistrate, yesterday dismissed as a "joke" allegations of financial links between himself and Mr Pierfrancesco Pacini Battaglia, an Italo-Swiss financier at the centre of corruption investigations. Commenting for the first time since financial police raided his home on Friday, Mr Di Pietro said the accusations, based apparently on a report by the Gico police of Florence, a branch of the financial police, were "a lie and a squalid vendetta". Extracts of the report were published yesterday by the Corriere della Sera newspaper.

The 68 raids conducted throughout Italy on Friday at the command of Brescia magistrates investigating Mr Di Pietro for alleged extortion included raids on the homes of Mr Giuseppe Lucibello, Mr Pacini Battaglia's lawyer, and Mr Antonio D'Adamo, a businessman; both, according to newspaper reports, are also alleged to have had financial links with Mr Pacini Battaglia. Both are friends of Mr Di Pietro.

A member of the "Clean Hands" pool of Milan magistrates until two years ago, Mr Di Pietro resigned as public works minister in Italy's centre-left government last month. *John Simkins, Milan*

Athens inflation slows

Greece's inflation rate slowed from 8.3 per cent in October to 7.7 per cent in November, its lowest since April 1973 according to the state-run statistical service.

The fall was mainly due to a sharp decline in heating oil prices but also reflected lower prices for fruit and vegetables as a result of good weather and tighter controls on wholesalers in the Athens area.

Inflation has remained above 8 per cent since January, bolstered by high wage increases for both private and public sector workers. Last month's fall came as a surprise to government officials who had predicted that year-end inflation would be 7.9 per cent. Despite the improvement, Greece's inflation rate is still more than three times the EU average. The government's inflation target for 1997 is 5.9 per cent, but its commitment to paying real wage increases of 2.5 per cent next year raises doubts whether this can be achieved. *Kerin Hope, Athens*

Greek farmers step up blockade

Greek farmers protesting against the Socialist government's economic policy tightened their tractor blockade of highways and rail links at the weekend (*above*), raising fears that Athens will run short of basic supplies.

The 11-day protest has trapped several thousand international trucks at Greece's borders with Turkey and Macedonia and paralysed domestic transport. To avoid farmers' roadblocks in southern Greece, a special ferry service has been started to link Athens's port of Piraeus with Patras, the main gateway for trade with the EU.

The farmers are demanding tax breaks on fuel and purchases of agricultural equipment and the write-off of more than $1.3bn in debts to state banks in order to offset lower EU crop subsidies.

Mr Costas Simitis, prime minister, says the government will resist attempts by special interest groups to undermine Greece's bid to join European monetary union. However, the Socialists face mounting pressure from disgruntled supporters, with strikes and demonstrations planned by teachers, customs officials and tax collectors over the next 10 days. *Kerin Hope, Athens*

German state optimistic

Business optimism in North Rhine-Westphalia, Germany's most populous state, rose steadily between the spring and autumn. However a survey by the state central bank showed that a more bullish mood among industrialists was countered by gloom among builders and retailers.

The bank's autumn poll of 550 companies showed that 25 per cent expected business to improve over the next six months, against 5 per cent expecting a deterioration and 70 per cent predicting unchanged conditions. Six months before, 20 per cent of companies forecast better times ahead against 10 per cent predicting a downturn.

Export-oriented sectors were upbeat, reflecting stronger demand from abroad. The chemical sector was the most optimistic, while none of the companies polled in the metal processing sector expected business to decline. Office machinery and computer equipment companies reported a strong upsurge in orders but weak investment trends in Germany meant there was little optimism among machinery makers. *Peter Norman, Bonn*

Belgian deputy PM faces decision on trial

By Neil Buckley in Brussels

Belgium may learn today if its flamboyant, bow-tied deputy prime minister, Mr Elio Di Rupo, will face trial for alleged paedophile activities, in the latest of a series of scandals to have shaken the country.

Despite indications at the weekend that Belgium's supreme court may demand more time to assess newly presented evidence, today is its official deadline for a recommendation on whether parliament should remove Mr Di Rupo's ministerial immunity from prosecution and submit him for trial.

The court's decision will follow an extraordinary "democracy conference" of parliamentary leaders at the weekend, and a day-long cabinet session on Friday to discuss urgent legal and political reforms.

The allegations against Mr Di Rupo have further undermined public confidence in Belgium's institutions, after a mishandled child sex murder case, and the arrest of a regional minister in connection with the 1991 killing of a former deputy premier.

At stake in the Di Rupo case is not just the career of one of Belgium's most senior politicians – a colourful economics and communications minister renowned for press releases adorned with his own doodles, and pronouncements on subjects from EU telecoms to the quality of Belgian chocolate.

If parliament sends him for trial, he will have to resign. But his departure could be a fatal wound for an already weakened government. If the supreme court advises parliament the case against Mr Di Rupo does not stand up, the legal system will face yet more questions about its efficacy and motives.

Until last week, many Belgians were convinced the case would be thrown out.

The original dossier against Mr Di Rupo, presented to parliament on November 19 by the Brussels prosecutor, was thin enough to prompt MPs to seek further investigations by the supreme court before taking action.

It centred on allegations that he had a relationship with Mr Olivier Trusgnach, now 23, who reportedly told police variously that he was, or was not, under Belgium's homosexual age of consent at the time. Mr Trusgnach has subsequently been described by friends and relatives as a "mythomaniac".

Whether a further dossier on Mr Di Rupo, passed to the court last Wednesday, strengthens the case may be revealed today.

Mr Di Rupo vehemently denies ever having sex with minors, saying he had relationships only with "consenting, responsible persons".

"My conscience is at peace," he said last week. "My confidence in our institutions is intact. I'm convinced [nothing] can prevent the truth from triumphing."

But if the case against the minister is indeed thin, why was it ever made public and presented to parliament? The answer may be connected with near-hysteria in Belgium surrounding paedophilia.

The brouhaha was stirred up by August's arrest of Mr Marc Dutroux as chief suspect in the abduction and murder of four young girls, and revelations of bungling and possible cover-ups in the case by police and prosecutors.

There is no suggestion of a link between the Dutroux affair and Mr Di Rupo's case. But the allegations almost certainly emerged as a result of stepped-up police efforts to root out sex offences of all kinds – including a telephone hot-line for public tip-offs. Recent reports even suggested postmen were being recruited as police spies.

Mr Di Rupo has warned of a "neo-McCarthyism" sweeping Belgium, directed not at communism but at paedophilia. He has also claimed to be a victim of "political machinations", and at least three conspiracy theories are circulating on why he is being targeted.

Di Rupo: flamboyant

● First, most Machiavellian and least plausible, is that the government itself was prepared to sacrifice Mr Di Rupo to combat criticisms of complacency, and convince the public it was serious in efforts to purge Belgian institutions.

● Second and more credible is that the justice system allowed the case to emerge to deflect attention from its mishandling of the Dutroux affair and hit back at a government which has sharply criticised it.

● That may be linked with the third, most likely, scenario – that Mr Di Rupo was a victim of the tension between Belgium's Dutch-speaking Flemish and French-speaking Walloon halves. This holds that the allegations were leaked by Flemish politicians to discredit their francophone counterparts and the government, possibly sparking an election.

There is some circumstantial evidence: the allegations emerged simultaneously in several Flemish newspapers before the francophone papers knew of them. They also surfaced together with similar charges against another francophone politician, Mr Jean-Pierre Grafé, a regional Walloon minister. The Walloon parliament will decide tomorrow whether Mr Grafé – who denies the charges – should stand trial.

Apart from the political implications, the cases could have other repercussions. A trial of either minister could worsen a current backlash against homosexuals.

If either case, but particularly that of Mr Di Rupo, collapses, the affair could discredit genuine efforts by police and prosecutors to tackle paedophilia.

"The real tragedy for Belgium", says one MP, "would be if this case turned out not just to have damaged a minister without justification, but allowed real offenders to go free."

Everyone wants to be a *bürokrat*

John Barham explains why so many Turks sit civil service exams

Turkish civil service examiners today begin sifting through exam papers from a record 90,000 applicants for just 2,500 coveted clerical jobs at the government's social security board. But the examiners, say candidates, are unlikely to be stretched.

Public sector jobs are usually in the gift of political bosses. The Refah party of Mr Necmettin Erbakan, Turkey's first Islamist prime minister, controls the SSK social security board and is assumed to have already handed out the jobs to the party faithful.

A shopworker who refused to give her name said: "The social democrats did the same when they were in the government, so why should Refah be different?"

Political patronage largely accounts for the 55 per cent increase in the number of civil servants in the last 15 years. Turkey now has about 2m civil servants.

Although the economy is growing vigorously, unemployment is rife and probably increasing in urban slums. Official statistics say only 6 per cent of the labour force lacks a job, much less than in most European countries, but the real figure is probably far higher.

There is great inequality of wealth, say commentators, and wages are in any case low and do not keep pace with 80 per cent inflation.

However, thousands of people still travelled from all over Turkey to sit the exams, which ended yesterday, in a sports hall in a dismal suburb of Ankara, in the faint hope of becoming a civil servant.

Although salaries of about $200 a month are far from princely, a public sector post offers the security of a job for life. It also confers status: in Turkey, a *bürokrat* is treated with respect, not contempt.

Many candidates are already in work, but fear for the safety of their jobs in private companies. And a growing number of Turks work in the underground economy, which ignores laws protecting workers' rights, or as street vendors who lack even the comfort of a regular wage.

Yet the public sector may not be able to provide lifetime employment much longer. Next year, three quarters of government revenues will be used to pay interest on its $100bn debts. The social security system is itself on the brink of collapse, absorbing up to $4bn in subsidies this year. Perhaps some of the lucky 2,500 will find themselves on the street again sooner than they think.

Foreign exchange groups plan merger

By George Graham, Banking Correspondent

Rival groups working on ways of controlling the risks of a payments breakdown in the $1,230bn a day foreign exchange market are to bury their commercial rivalry and work towards a merger.

Talks have already been held between Echo and Multinet, which have established competing netting systems. Netting cuts foreign exchange settlement risk by offsetting the gross amounts banks owe each other in different currencies, so they only have to pay the much smaller net balance.

The two netting systems have also opened discussions with the Group of 20, a consortium of the world's largest foreign exchange trading banks which is trying to establish a central clearing house to handle currency payments.

"The advantages of having a single utility to reduce risk in the market are overwhelming," according to a resolution agreed by Echo's board. Although banks reckon the probability one of their main foreign exchange trading partners will default is small, the sums involved are so huge that if a default were to occur, the entire banking system could be shaken.

A bank might have paid over hundreds of millions of D-Marks in Germany hours before it received the corresponding dollars in the US – as happened in 1974 to trading partners of Bankhaus Herstatt, a Cologne bank which collapsed leaving more than $620m of trades unsettled. Smaller foreign exchange losses occurred more recently with the BCCI failure.

Central banks stepped up their pressure on the private sector to find a solution to this Herstatt risk with the publication of a report from the Bank for International Settlements in Basle, calling for action within two years.

Just a few months ago, however, individual banks – and different departments within some banks – were at loggerheads over the best approach. Echo, which started operations in London last year, is backed by most large UK banks and by several French, Dutch and Scandinavian banks. With the addition of the yen this week it will offer netting services in 14 currencies, including all the main trading currencies.

Multinet, on the other hand, was backed by a number of large US and Canadian banks. It received its final approval last week from the Federal Reserve, but has not yet started operations.

The G20 clearing house bank, on the other hand, had the support of a much broader geographical spread of banks which between them account for a third of all the world's foreign exchange trading. It would, in theory, completely eliminate Herstatt risk through a system known as "continuous linked settlement," in which both legs of a trade are paid simultaneously. But it remains a somewhat sketchy, though ambitious concept, and is reckoned to be at least two years from fruition.

Current talks now aim at blending the best of Echo and Multinet to provide a comprehensive multilateral netting system, which some banks estimate could cut their settlement risk by 50-75 per cent.

Other systems such as FXNet and Swift Accord could also be involved. They also provide netting services, but only bilaterally between two banks, rather than multilaterally between a group of banks.

When the G20 bank is ready, it could then be linked to this netting system and handle a greatly reduced stream of net payments, thus eliminating the remaining risk.

US steps in after Cavallo's allegations

By David Pilling and Stephen Fidler in Buenos Aires

Former economy minister Domingo Cavallo: alleged there were 'mafia' attempts to take over Argentina's postal system

Senior diplomats from the US embassy in Argentina last week held a meeting with Mr Alfredo Yabrán, the man accused by former economy minister Domingo Cavallo of trying to engineer a "mafia" takeover of the country's postal system.

The meeting, requested by the US officials and held before President Carlos Menem's official visit last week to the US, is a sign of the concern in Washington generated by Mr Cavallo's allegations of corruption within the Menem administration. The issue has dominated the Argentine media in recent weeks.

Three senior US diplomats held a four-hour meeting in Mr Yabrán's Buenos Aires offices. Mr James Cheek, the US ambassador, helped to arrange the meeting but did not attend.

The US embassy would not officially confirm the meeting with Mr Yabrán, a 52-year-old businessman from Entre Ríos province.

However, an official said Washington had an interest in ensuring legislation now before the Argentine congress made the country's postal service as competitive as possible. The US was also concerned to ensure new regulations did not hinder the war on drugs, he said.

Mr Cavallo told Congress last year that the proposed legislation, which would establish a postal regulatory regime in preparation for the outright privatisation of the sector, had been deliberately drafted to help Mr Yabrán establish a monopoly. He said Mr Yabrán controlled through relatives and frontmen a host of post office companies, in addition to the Ocasa group which he admitted to owning.

The proposed bill would also prevent the search of mail vehicles by police, facilitating the traffic of drugs and laundered money through Ezeiza international airport.

Bonded warehouses at the main international airport in Buenos Aires were also controlled through companies belonging to Yabrán frontmen, Mr Cavallo said.

Mr Cavallo's allegations to Congress, repeated and elaborated on in recent weeks, have so far halted passage of the bill but the attacks on Mr Yabrán played a large part in the dismissal of the economy minister in July.

The US embassy has hitherto backed Mr Cavallo in his battle against Mr Yabrán's alleged attempts to create a private post office monopoly with the help of government officials. But since Mr Cavallo was sacked last July the embassy has become more reticent in its support.

"The US embassy always has an influence in Argentina by action or omission," said Mr Wenceslao Bunge, spokesman for Mr Yabrán, who is rarely seen in public. He said the meeting was proof the US had "started wondering: 'what if Cavallo is wrong?'."

Mr Yabrán has filed three lawsuits against Mr Cavallo, including one for slander and another for allegedly damaging Mr Yabrán's business interests to the tune of $180m.

Mr Yabrán had been hounded from the post office sector altogether, said Mr Bunge. He had recently sold part of Ocasa, with an option on the remaining stake, for $80m to Oca, a rival group. Mr Cavallo has alleged that Oca also belongs to Mr Yabrán.

Asked about the ownership of the companies said by Mr Cavallo to belong to Mr Yabrán, one western diplomat said: "It's kind of murky.

"Documents would certainly indicate that there are a lot of interlocking directorships with associates and in many cases relatives of Mr Yabrán. But as far as ownership goes, I don't think it has been clarified," he said.

"I'm not trying to portray Yabrán as Mother Teresa," said Mr Bunge.

"He is neither worse nor better than other Argentine entrepreneurs."

US welfare cash could go into equities

By Patti Waldmeir in Washington

A federal advisory panel is expected to issue a cautious recommendation later this month that a portion of US social security funds should be invested in equities as part of a plan to save the state pension programme from bankruptcy.

But the Advisory Council on Social Security was unable to agree on recommending partial privatisation of the system, says the panel chairman, Professor Edward Gramlich. And one faction of the deeply divided panel argues the government should not begin investing social security funds in equities until after further lengthy examination.

Asked to comment on the plan, Mr Robert Rubin, Treasury secretary, yesterday expressed caution on the risks involved. Speaking in the wake of a sharp drop in US equity markets, he said: "Investing in equities, while an interesting idea, raises some concerns, particularly the volatility of equities."

He left open the possibility of revising the consumer price index, which is used to calculate the annual cost-of-living rises in social security, a measure recommended last week by a congressionally appointed panel and one which would ease though not resolve the social security crisis.

The council, divided into three factions, will issue a report by year-end which proposes three alternatives for dealing with Social Security. All involve a substantial investment of retirement funds in equities, but one – backed by trade unionists – is only a lukewarm endorsement. The trade union group says equity investment should be undertaken only after "careful study and public debate." That faction rejects a rival proposal that individuals should be mandated to invest a portion of their social security taxes themselves in private investment accounts.

The panel's disagreements foreshadow a bitter battle over social security reform, one of the biggest issues of President Bill Clinton's second term. Mr Clinton has said it might be possible to "test" a partial privatisation of social security, and Mr Tom Daschle, senate minority leader, last month said he favoured investing some social security funds in stocks (currently the social security trust fund can invest only in government securities).

But Prof Gramlich said investing in equities was the only way to avoid either cutting social security or raising payroll taxes to compensate for increased demands on the system when the "baby boomer" generation reaches retirement age. The Administration has said it expects the social security trust fund to be depleted by 2029.

UN braces for new influx of returnees

The 500,000 Hutus in Tanzania are looking to go home to Rwanda. **Michela Wrong** reports

In the compound of the UN High Commissioner for Refugees in Ngara, the excitement is palpable.

Christmas leave has been cancelled; emergency meetings are being held. A secretary types up instructions on how to handle the rush of journalists expected to cover the great event.

The organisation is bracing for the second coming – the repatriation of nearly 500,000 Hutu refugees who have been living in north-west Tanzania since fleeing the advance of the Rwanda Patriotic Front in 1994.

Following last month's return to Rwanda of 600,000 refugees from eastern Zaire, the UNHCR is convinced the time is now ripe for a mass influx from Tanzania, bringing the organisation one step closer to ending a two-and-a-half year refugee crisis that has haunted the region.

It is a homecoming ardently desired by nearly all the key players. Tanzania, exasperated by the way the refugees have stripped woodland, killed wildlife and depleted water resources, wants the eight sprawling settlements scattered across these rolling hills gone.

Rwanda's Tutsi-dominated government, hoping that funds meant for the faltering multinational intervention force will be re-allocated inside its frontiers, wants to demonstrate it is serious about reconciliation with its Hutu majority. As for the aid agencies, they are finding the task of raising funds for a community regarded with diminishing sympathy abroad a heavy burden.

The only fly in the ointment could be a key component: the refugees themselves. They were given their official marching orders last week, in a joint communique from the Tanzanian Ministry of Home Affairs and the UNHCR.

The blunt message that Ngara's inhabitants had until December 31 to go home prompted Amnesty International to accuse the UN agency of violating the principle of voluntary repatriation.

The complaint went to the heart of the problem of persuading this refugee population, still cowed and controlled by the community leaders who masterminded the 1994 genocide of Rwanda's Tutsis, to move.

For despite being unanimously welcomed, the exodus from Kivu fell far short of a voluntary return as traditionally defined by the UNHCR. Refugees started moving only when the Banyamulenge rebels who had routed the camp hardliners made it clear they would be shot if they remained.

The question now is whether what aid officials privately term a "forcible voluntary repatriation" can be repeated in Tanzania without the intervention of an armed and dangerous rebel movement.

"Your guess is as good as mine," confesses Mr Musa Abiriga, head of the UNHCR sub-office in Ngara. "Rwandans have a group mentality. If we succeed in triggering a small movement, they will all leave. If we don't, it'll collapse."

Aid workers say they have sensed a change of atmosphere in the camps since the events in Goma and Bukavu. Glued to short-wave radios and closely monitoring events in Zaire, the refugees know the political landscape has radically altered.

> 'If we succeed in triggering a small movement, they will all leave. If we don't, the repatriation programme will collapse'

They had been assured by their leaders that the former soldiers and militiamen who had fled to Zaire would lead them home, behind a conquering army. Now those forces are scattered, fighting desperate rearguard actions against the Banyamulenge.

"They were looking to Zaire for leadership, hoping one day the Messiah would come and deliver them to their promised land," says Mr Abiriga. "Now that hope has gone. That's a fundamental change."

The fact that mass arrests or massacres of returning refugees by the new Rwandan army have not been reported has also registered. Above all, say camp workers, a general conviction has spread that return – whatever the circumstances – has become inevitable.

"People are saying they may eventually be forced to walk home, so why not go now, and get a lift in a UNHCR truck," says Ms Rose Rugonzo, a medical co-ordinator working at a camp hospital. From a pitiful 100 a month before the events in Kivu, returnee numbers have soared to 600 a week. On Friday, 1,118 refugees registered to return, and the UNHCR said it hoped to see a surge in figures after today's food distribution.

Much will depend on the attitude of the *bourgmestres* and prefects who led the Hutus into exile. Wary of being labelled as "intimidators", they insist each individual is free to make up his own mind.

But Jean, a young farmer waiting to be repatriated, tells another story – of psychological pressure rather than outright threats. "Most people are thinking of repatriation. But when people hear you're planning to leave, the young men working for the commune leaders come round and try to dissuade you. If it hadn't been for that I'd have left three weeks ago."

The Tanzanian government currently appears to be hoping that the momentum created by recent events will suffice. A specially isolated camp for intimidators, an hour's drive north of Ngara, has been prepared, but never used. But aid workers believe if the December 31 ultimatum is ignored, it will adopt a more muscular approach, snatching suspected hardliners and sending troops in to try to panic the refugees into mass flight.

"The government says it has a list of intimidators," says one official. "We don't know what it is planning, but it says it knows how to get them."

Such an approach would certainly be condemned by the likes of Amnesty International. But after the "forcible voluntary repatriations" witnessed first from Burundi and now Zaire, the response from an international community all too aware of the destabilising potential of central Africa's refugee population is likely to be muted.

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Tanzania
Michela Wrong

EVEN BEFORE THE NEW 737 FLIES, IT'S BEEN DRIVEN BY EUROPEAN AIRLINES.

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BOEING

China delays plan to ban US imports

By Tony Walker in Beijing

China has delayed for one month plans to ban imports of US goods in retaliation for American penalties on Chinese textile imports.

The move defuses for the moment a potentially damaging row over US claims that China has shipped large quantities of textiles through third countries to avoid quota restrictions.

A spokesman for the Ministry of Foreign Trade and Economic Co-operation said China would not impose sanctions for the time being, in recognition of the "positive" tone of consultations over the past week.

The two sides held four days of talks in Beijing last week on the transhipment issue, new quotas and a new bilateral textile agreement to replace the existing one which expires on December 31.

The Chinese statement reflects attempts by both sides to improve relations following the re-election of President Bill Clinton. Mr Clinton met China's President Jiang Zemin in Manila last month and agreed to work for improved ties.

In September the US imposed $19m in penalties on Chinese textile imports, saying Beijing had contravened quota restrictions and a 1994 trade pact by allowing shipments of falsely labelled goods through places such as Mongolia, Hong Kong and Fiji.

China had threatened to ban from December 10 imports of US agricultural products, foodstuffs, alcohol and other beverages. Beijing put no figure on the value of the banned items.

The US administration is under pressure from Congress because of a ballooning trade deficit with China. In the eight months to August, the gap reached $29bn, on the way to passing last year's figure of $35bn.

US exports to China, however, are sluggish. They reached $7.43bn in August, much the same as last year. Chinese exports to the US were up 8.3 per cent on last year. China's surplus with the US is also threatening to overtake that of Japan. To August the gap between the US and Japan at $30.36bn was about the same as China's trade surplus.

A Chinese ministry spokesman said China expected to reach agreement with the US at an early date. "China always holds that trade disputes should be settled though consultations on an equal footing," he said.

In a separate row with the European Union over textile shipments, China vowed to protect its interests and called an European Union decision last month to impose 22.6 per cent anti-dumping duties on unbleached cotton cloth "groundless and unacceptable".

China exports about $100m worth of unbleached cotton fabric to the EU annually.

Plan to offset EU drug ruling

By Daniel Green

The pharmaceuticals industry will today offer new proposals to limit the effects of last week's European Court of Justice ruling to allow cheap medicines from southern European countries to be imported into higher-priced northern Europe.

Mr Martin Bangemann, the European commissioner for industry, is hosting talks in Germany with pharmaceuticals industry leaders and European Union health ministers.

Pharmaceuticals sector chief executives, including Mr Jan Leschly of the UK's SmithKline Beecham and Mr Raymond Gilmartin of US company Merck, will lead calls to protect northern European profit margins from cheap imports.

The industry will propose a block exemption on free EU movement of goods for those goods whose prices are government-administered. It will also propose a contract pricing system under which drug companies would have contracts with governments-as-purchasers; sales outside that contract would be at "average EU prices".

The industry's proposals follow a European Court ruling in favour of two British companies, Primecrown and Europharm, which wanted to import drugs sold in Spain for resale in the UK.

Prices in Spain and Portugal have historically been low because drugs were not patented there until 1992. Without patent protection, new generic drugs have been priced to compete with patented rivals.

In patent-protected markets, the identical drug would have about 10 years free from generic competition and prices can be several times higher.

The pharmaceuticals industry argues that it cannot raise prices now in Spain and Portugal because they were fixed by negotiation with the governments.

The WTO's goal of global liberalisation will be put to the test at its first ministerial meeting in Singapore this week

Search for common ground needs firm political resolve

By Guy de Jonquières

SINGAPORE December 1996

The World Trade Organisation's ambitions to advance global liberalisation and enhance its own authority face their biggest test yet this week, when the two-year-old institution holds its first ministerial meeting in Singapore. Mr Renato Ruggiero, WTO director-general, hopes the meeting will forge a broad political consensus to strengthen the multilateral trade system and galvanise efforts to tackle a demanding liberalisation agenda stretching into early next century.

Renato Ruggiero: pinning his hopes on a broad consensus

That, however, will require trade ministers from more than 100 countries to overcome deep disagreements at the five-day meeting, which opens today. Unless they can find more common ground, their talks could degenerate into public squabbling and stalemate.

The atmosphere could improve if the ministers clinch a deal to cut information technology (IT) tariffs. The US, the European Union and Japan seem close to an agreement, and President Bill Clinton last month urged other Pacific Rim leaders to back it.

An IT deal could reinvigorate efforts to conclude by mid-February negotiations to liberalise basic telecoms. These passed their original April deadline when the US balked at an agreement.

This week's talks may also gain momentum from Mr Clinton's recent assurances to President Jiang Zemin of China – which will be represented in Singapore as an observer – that the US is ready to be more flexible on Beijing's stalled bid to join the WTO. Mr Clinton's initiatives, along with US eagerness to settle bilateral trade disputes in the WTO, have raised hopes that Washington plans a more active role in the multilateral system, after being widely accused of wavering in its commitment. Washington and Brussels have also been seeking to end the bickering which has blighted transatlantic trade relations during the past year.

However, these trends are unlikely to be enough to heal other rifts between WTO members. Not only have they been unable so far to unite behind a clear vision of the WTO's future, but their exchanges have been coloured by mutual recriminations and suspicion.

Poor countries complain bitterly that they have yet to gain much from the Uruguay Round world trade deal, and accuse rich economies of being slow to honour pledges to open their markets, particularly for textiles.

These differences have been sharpened by disputes over western demands for WTO action in new areas. The most contentious are US-led efforts to start WTO talks on labour standards and an EU proposal for negotiations on global rules for foreign investment.

Many developing countries – and some industrialised ones – oppose these proposals. US calls for stricter public procurement rules have also sparked controversy, as have EU demands that competition policy be placed on the WTO agenda. Talks in Geneva have failed to bridge these gaps, leaving ministers to try to break the log-jam. Whether they succeed may influence their approach to forthcoming negotiations to lower trade barriers and strengthen disciplines in sectors including agriculture and services.

Few governments today seem keen to press ahead with further sweeping liberalisation – still less to launch another omnibus trade negotiating round. Progress will not be made easier as WTO membership expands. As well as China, 30 applicants want to join, most of them poor countries still struggling to develop market economies.

Ministers are unlikely to act decisively this week to meet these challenges, which will require much skilful diplomacy and patient negotiation. But the mood in Singapore should be a telling gauge of the political resolve to seek solutions.

Fur flies in trapping row

By Caroline Southey in Brussels and Nancy Dunne in Washington

The European Union is making a last-ditch attempt to bring the US into an international agreement on humane trapping standards, but EU concessions seem unlikely to avert a transatlantic dispute over fur trade.

While pressing for a pact, the EU has twice delayed imposing a ban on fur imports from countries that use leghold traps. The ban, originally due from January 1 1995, now is due from the end of this year.

The European Commission will today brief EU environment ministers on progress in talks with the world's leading fur exporters.

The US has threatened to take the EU to the World Trade Organisation if the import ban is imposed. Sir Leon Brittan, the EU's chief trade negotiator, and several EU countries, want a deal with the US to avoid a damaging case in the WTO.

But Mrs Ritt Bjerregaard, EU environment commissioner, and some member states, including the UK, are pressing for the toughest possible trapping standards.

EU negotiators have already struck a deal with Canada and Russia under which steel-jawed leghold traps would be banned after four years. But the US wants a let-out clause which would allow it to continue using the traps after four years if no internationally accepted replacement has been found.

Animal rights supporters in the US say the EU now has agreed rules which are much weaker than Europe initially envisaged.

"Our hope was for an agreement with firm language that would immediately prohibit steel-jaw leghorn traps," said Ms Cathy Liss of the Washington-based Animal Welfare Institute. "We are outraged that even this weak agreement is too strong for the Americans."

The traps are banned in 88 countries on the grounds they cause unnecessary suffering to animals. An agreement would establish testing procedures, mostly to be performed in Canada. Under the proposals, a trap used to restrain animals – rather than kill them – would be found inhumane if it injures five or more out of 20 trapped species. In traps designed to kill, death must result in under five minutes.

US fur exports covered by an EU import ban would be worth $23m. But US trappers argue this underestimates the potential loss as many pelts are exported to Asia for sewing and re-export to Europe.

Thorny 'new issues' set to dominate debate

The so-called "new issues" – labour standards, investment and competition policy, and corruption in government procurement – can be expected to dominate the public and private debate in Singapore, writes Frances Williams in Geneva.

While many developing countries believe on pragmatic grounds that they and the WTO have enough to do without taking on complex new areas, others take a more ideological view.

They see the west's push for new international rules as a form of neo-colonialism directed at promoting the power of global corporations and finding new social and environmental pretexts for raising trade barriers against their exports.

Thus, a hardline group of about a dozen developing countries, led by India, Pakistan, Malaysia, Indonesia, Egypt and Tanzania, is resolutely opposed to WTO involvement in promoting labour standards or tackling corruption, which they say have nothing to do with trade.

The same group wants to confine analytical work on investment and competition policy to the WTO's Geneva neighbour, the United Nations Conference on Trade and Development (Unctad), which takes a more sympathetic view of their concerns.

■ Labour standards: The US, backed by France and Norway, had wanted a working party to be set up at Singapore to look into the link between trade and worker rights. But this was solidly opposed by developing countries, and by Japan, Australia and European Union members Britain and Germany.

Most WTO members, the US and EU among them, could accept a draft paragraph in the ministerial declaration that confirms the commitment of WTO members to observing basic labour standards while opposing enforcement through trade sanctions. However, developing country hardliners want no mention of worker rights at all.

■ Investment: Industrialised nations such as those in the EU, Canada and Japan, backed by some developing countries, especially in Latin America, are urging the WTO to begin analytical work on trade and investment. Most hope this will lead to the start of talks on a WTO investment accord around the turn of the century, though Washington is currently more interested in the multilateral agreement on investment now being negotiated in the Organisation for Economic Co-operation and Development.

■ Competition policy: Brussels initially urged the WTO to begin work on competition policy that could lead to a common framework of anti-trust rules. Hong Kong and South Korea subsequently proposed a look at the impact on competition of anti-dumping and safeguards actions, which they later broadened to a review of all WTO rules in the light of economic globalisation. The US, concerned to protect its anti-dumping legislation, opposes such a review.

■ Government procurement: The US, citing corruption as the biggest trade barrier now facing American companies, wants negotiations on a new government procurement accord that would make bidding procedures more transparent and competitive. The present WTO procurement code, which requires countries to open procurement markets to foreign competition, is voluntary and has few developing country members.

■ Trade facilitation: Included in the list of "new issues" is an uncontroversial EU proposal, enthusiastically backed by business, for WTO work on simplifying customs procedures.

■ Environment: Industrialised countries have expressed disappointment with the modest results of two years' talking in the WTO's trade and environment committee. The main recommendation to ministers is to make the ad hoc committee permanent.

In particular, countries were split on whether and how WTO rules should be changed to take explicit account of trade measures taken under multilateral environmental agreements (MEAs).

Developing countries opposed proposals, by the EU among others, to widen the scope of the WTO's environmental exception to encompass MEAs. MEAs with trade measures include the Montreal protocol banning ozone-eating chemicals or the CITES convention that prohibits trade in endangered species.

Widening role for developing countries

By Frances Williams in Geneva

Three-quarters of the WTO's 125 members are developing countries and the proportion is set to rise with near-universal membership in the future.

Despite their diversity of interests, nearly all developing countries are opposed to WTO involvement in labour standards. They agree, however, that the Singapore meeting should focus on the implementation of the Uruguay Round global trade accords rather than launch the organisation into a set of new negotiations.

The WTO's poorer members have been struggling to implement the vast Uruguay Round package, which includes calls for 175 different notifications of trade measures.

Implementation problems have been particularly acute for intellectual property protection, a western demand in the Uruguay Round. The new WTO rules have been controversial in many countries, notably in India, while obliging poorer nations to introduce, sometimes for the first time, highly complex legislation on patents, copyrights and trademarks.

Developing countries contrast their strenuous efforts to put the intellectual property accord into operation with what they view as the west's niggardly approach to liberalising trade in textiles.

Textile exporters, led by India, Pakistan, Hong Kong and Egypt, will be looking for US and European Union indications in Singapore that they are prepared to accelerate improved market access instead of leaving most import restrictions in place to the end of the 10-year phase-out.

On other issues, developing countries have even more divergent views. Thus Argentina – backed by Brazil, Thailand and other members of the Australian-led Cairns group – wants more emphasis on preparations for further talks liberalising trade in agriculture. This is opposed by South Korea, Japan, the EU and Switzerland.

Meanwhile, WTO ministers are expected to agree a plan of action aimed at helping the very poorest countries to integrate into the international trading system. However, there will be no binding commitments to lower tariff and non-tariff barriers to least-developed country exports as Mr Renato Ruggiero, WTO director-general, had originally hoped.

Agenda lacks deadlines

Timetable for future talks needs momentum

One of the clearest yardsticks of the Singapore meeting's achievements will be how strongly ministers reaffirm their commitment to tackle an ambitious schedule of further trade talks required by the Uruguay Round, writes Guy de Jonquières.

This "in-built agenda" calls for discussions on a wide range of issues in the next few years, but sets few deadlines for completing them. It will be up to ministers to inject momentum by turning this timetable into a more solid work programme.

Sir Leon Brittan, the European Union trade commissioner, wants them to set in train active preparations for the planned negotiations, with a view to launching a full-scale trade round by the end of the century.

His proposal has won support from Australia and other big agricultural exporters. But Japan, Korea and France, which want to resist as long as possible pressure to liberalise farm trade, are cool. So is the US, which has only a limited negotiating mandate from Congress.

Leon Brittan: wants a full-scale trade round

Key features of the agenda include:

☐ By end of this year: Start talks on liberalising government procurement of services.

☐ By mid-February 1997: Conclude negotiations to liberalise basic telecommunications markets.

☐ By end 1997: Re-negotiate interim agreement on financial services; conclude negotiations on emergency safeguards in services trade and on civil aircraft subsidies. Review agreements on anti-dumping, technical barriers to trade and sanitary/phytosanitary standards. Complete work programme on rules of origin.

☐ 1998: Next WTO ministerial meeting, in Geneva. Review of disputes settlement rules.

☐ By end 1999: Start negotiations on agriculture, services and government procurement. Review agreements on subsidies, intellectual property rights and trade-related investment measures.

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NEWS: ASIA-PACIFIC

Fresh talks called in attempt to settle market access dispute on eve of deadline

US-Japan insurance row simmers

By Michiyo Nakamoto in Tokyo

Japan and the US have failed to reach agreement over access to Japan's insurance market during weekend talks on the issue, but have agreed to a further ministerial meeting later this week.

A last-minute meeting between Mr Hiroshi Mitsuzuka, Japanese finance minister and Ms Charlene Barshefsky, acting US Trade Representative, failed to bridge differences over whether recent Japanese moves to deregulate its insurance market breach a 1994 bilateral agreement. Mr Mitsuzuka and Ms Barshefsky agreed to meet again on December 14, just one day before the self-imposed deadline for an accord.

The Japanese side made a further proposal for deregulating the primary sector, covering life and non-life insurance markets, at the meeting. However, a significant gap still remained over whether or not Japanese plans to allow domestic life insurance and non-life insurance companies into the so-called third sector through subsidiaries was in breach of the 1994 accord. The US side has insisted the 1994 accord ruled out "radical change" in the third sector, where US companies, in particular, have carved out a niche, and that the new Japanese move constituted "radical change."

The Japanese side has put forward a new proposal to include significant deregulation of the primary sector along with the country's financial "Big Bang" deregulation measures scheduled to come into force in 2001.

The new measures would include deregulation of motor insurance rates, according to Japanese press reports. However, the Japanese authorities are reluctant to accept US demands to prevent Japanese insurance companies from entering the third sector, which includes promising growth markets such as personal accident and cancer insurance, for a significant period.

The government amended the insurance law earlier this year to allow entry by Japanese insurance companies into the third sector through subsidiaries. While the ministry of finance has placed a virtual moratorium on third sector entry until the end of this month, it is keen to give domestic companies the go-ahead as soon as possible. The US claims, however, that such a move would constitute "drastic change" in the business environment and would therefore be a breach of the 1994 bilateral agreement.

Entry by Japanese companies into the third sector, on which many US companies depend crucially for their revenues in Japan, should not be allowed until significant deregulation of the primary sector is carried out, the US insists.

NTT dials the global marketplace

Japan has been curiously absent from the international race to build up global telecoms networks.

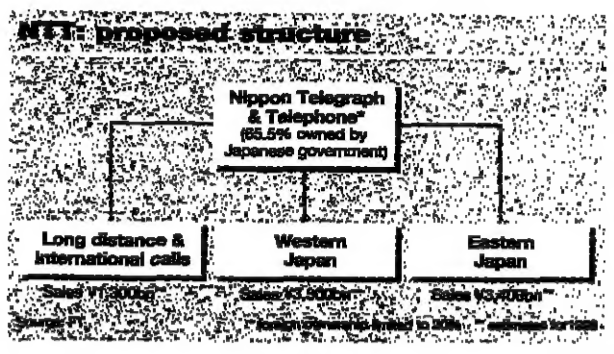
Forty-four years after its public telecoms utility was broken into two – NTT, serving the domestic market, and KDD, the international market – that anomaly is finally about to be corrected.

The ministry of posts and telecommunications announced last week that NTT was to be split into three units – two regional ones and a long-distance plus international carrier – under a single holding company. This means NTT will be allowed for the first time to sell international services.

The fine print has yet to be written on exactly when and how NTT will be allowed to conduct international business. But the announcement means NTT can begin to plan its move into the world market.

The hastily patched reform, comes just in time for the ministry to submit bills to the next parliamentary session, reflects heightened concern in Japan over the damaging impact that NTT's further absence from the increasingly global telecoms market would have on Japanese competitiveness.

The accelerating trend in the telecoms industry towards globalisation has triggered alarm not just within NTT but also among politicians, including Mr Ryutaro Hashimoto, the prime minister, and business leaders. They are concerned that keeping NTT out of the international market may leave Japan in the slow lane to an advanced information society.



When it enters the world market, NTT – despite its lack of experience – will be a formidable player because of size and technical expertise.

"They have 60m phone lines in Japan for a start," said Mr Eric Gan, industry analyst at Salomon Brothers in Tokyo. NTT's size, with revenues of more than Y7,900bn ($70bn) a year, also gives it a tremendous advantage over global competitors, most of them much smaller.

Furthermore, the company's technological expertise places it among the top carriers to provide advanced global communications services, said Mr Hironobu Sawake, industry analyst at Nikko Research Centre in Tokyo. NTT has laid an optical fibre network throughout Japan and has a particularly high level of expertise in multimedia technology, which will increasingly be in demand from multinational corporations, he notes.

Those are some of the reasons why foreign carriers have been courting NTT.

For foreign telecoms companies eager to build up global networks, NTT is a natural partner in the increasingly important Asian market. Although foreign companies have linked with Japan's existing international carriers, KDD, ITJ and IDC, not only do these companies lack domestic operations, the revenues of even the largest of them are only a fraction of NTT's.

Analysts believe the chances are high that NTT will form some kind of partnership with a foreign carrier. Mr Miyazu has suggested NTT will begin providing international computer communications services by leasing lines where it does not own them.

In the domestic market, the break-up of NTT into two regional companies and one long-distance company promises to stimulate further competition, analysts believe. For one thing, although the companies groups will be linked under a single holding company, the need to report separate accounts will force them to cut costs and raise profitability, which in turn will force them to lower rates.

While NTT was a single company providing both local and long-distance services, long-distance competitors complained that the high access fees it charges other long-distance companies and cellular phone companies for using its local network – the part of the telecoms line that goes directly to users – prevented them from lowering their rates.

However, it is unlikely that access charges, which are calculated to cover costs, will be reduced significantly unless NTT's local business costs comes down substantially.

NTT, which has a virtual monopoly of the local market but faces fierce competition in the long-distance market, has also drawn criticism from its competitors that costs for local business have been higher than necessary because the local business has been subsidising its long-distance business.

Under the new structure, the local companies' cost structure will become more transparent, making cross-subsidisation difficult and forcing them to lower costs and charge lower access fees, Mr Gan says.

Whether or not the deal proceeds depends on a political decision to allow the creation of a holding company, which NTT believes is crucial in protecting its shareholders. Holding companies are still banned in Japan and consolidated taxation is not accepted.

Resistance is expected from international telecoms operators that are unlikely to survive the competition from NTT intact. A wide-ranging restructuring of the entire industry is also to be expected. But given that the future of Japanese telecoms is at stake, it is likely politicians, the telecoms authorities and NTT will join forces to overcome obstacles.

Michiyo Nakamoto

Time tight for HK's ethnic minorities

By John Ridding in Hong Kong

Mr Ravi Gidumal runs a Hong Kong trading and distribution business but fears his own movements will soon be constrained. Ms Vandana Rajwani is a barrister who worries she could be kept out of court. Both are angry that they, like thousands of others in the colony, are set to become stateless when it returns to Chinese sovereignty on July 1 next year.

As time ticks by, Hong Kong's ethnic minorities are stepping up attempts to get British citizenship. A debate this week in the House of Lords marks a culmination of efforts to highlight their dilemma and to bring pressure to bear on the British government. "It is a matter of rights," says Mr Gidumal. "Britain has a legal and moral responsibility."

At the root of the problem lies the gap between China's nationality laws and the shrinking scope of Britain's right of abode. China does not recognise ethnic minorities as nationals, although it will allow those concerned to continue living in Hong Kong. British residency rights have been eroded by successive nationality laws since the 1970s. Those caught in the gap number a maximum of 8,000 people, according to the Hong Kong government, although a better estimate is between 3,000 and 5,000 says the Indian Resources Group, which is leading the lobbying effort.

Many have long ties to Britain, some stretching back to the founding of the colony in the 1840s. About 2,000 Indian troops were present when the British flag was raised in Hong Kong. "They didn't choose to be here. They were brought here," says the Indian Resources Group.

Mr Gidumal's grandfather left British India for China at the beginning of this century. During the second world war he was sent to a prison camp in Japan. His father was a British Citizen of the United Kingdom and Colonies, but regulations blocked Mr Gidumal junior from full British citizenship.

The largest contingent among the ethnic minorities is from the Indian subcontinent. But the diverse group even counts some white Russians who fled the communist revolution, passed through China, and ended up in the British colony.

What they share is a sense of injustice and practical problems. Without citizenship, Mr Gidumal fears that countries could impose strict visa requirements. "At the extreme, they may not let you in. The British government has sent a warning signal. They are British, but not British enough."

Ms Rajwani believes it could be difficult to work as a barrister after 1997. "My Cantonese is good but it might not be good enough to conduct a case," she says, adding that Hong Kong's British colonial culture meant she was encouraged to concentrate on learning English as a child.

Mr Gidumal believes that the cause is winning support. "Things are moving in our favour, so I am cautiously optimistic," he says, noting that the opposition Labour party has pledged to grant the right of abode to Hong Kong's stateless minorities.

This week's debate in the Lords, says Mr Gidumal, is expected to result in the motion being approved. It would then move to the House of Commons. Publicity and pressure, he says, as much as the parliamentary steps are the objective of the exercise.

The problem, he accepts, is the Home Office and Mr Michael Howard, the home secretary, who remains opposed to concessions on the issue. "We still have a quite a battle ahead of us," says Mr Gidumal.

Rangoon campuses sealed off

By Ted Bardacke in Rangoon

Burmese soldiers and police sealed off Rangoon's two main universities at the weekend after the most violent clashes in the capital since a crackdown killed thousands in 1988.

The clashes were the culmination of a week of student demonstrations. Up to 2,000 students from Rangoon University and the Rangoon Institute of Technology (RIT) have been protesting against police harassment and demanding formation of independent student unions.

Police moved in on Saturday, turning water cannons on nearly 500 protesters and then herding them into military trucks.

Most of the detained students were later taken back to their campuses and stayed there after roads around the capital were blocked by armed soldiers and riot police.

Protests were continuing inside the RIT campus, said nearby residents. RIT students spearheaded the 1988 demonstrations and the university was subsequently closed for two years.

About 500 supporters of democracy leader Ms Aung San Suu Kyi gathered near her home yesterday, chanting pro-democracy slogans and support for the students. Except for one brief outing on Thursday, Ms Suu Kyi has been confined to her home with a small group of aides since the student protests began.

US economic sanctions can be triggered if Ms Suu Kyi is harmed or re-arrested or if repression intensifies. The EU is considering revoking Burma's Generalised System of Preferences trade privileges.

Diplomats said Burmese authorities were avoiding a violent crackdown so as not to jeopardise their admission into the Association of South-east Asian Nations. Asean last week indicated that it would accept Burma as a full member.

Drug chain seeks to employ doctors

By Peggy Hollinger and Nicholas Timmins

Unichem, one of Britain's biggest pharmacists and drug distributors, is planning to bid to run family doctor services on contract to the National Health Service when the government's primary care bill becomes law.

The bill, currently before parliament, makes it easier for private bodies to employ family doctors and other staff to provide services to the NHS. The proposals are likely to become law next year.

Unichem wants to set up one-stop health shops combining GP services, minor surgery, chiropody, dental services and a pharmacy under one high street roof. The company hopes to form a consortium to run the services, possibly with a health insurer such as Bupa.

The company said it was awaiting guidance from the department of health, expected early next year, before deciding how to proceed. Supermarket chains such as Tesco and Asda are understood to be exploring similar ideas for GP services in their supermarkets.

UniChem, which is currently bidding for the Lloyds Chemists chain, is one of the UK's largest pharmaceutical wholesalers. It owns more than 400 chemists shops.

The company said moving into primary healthcare would allow it to exploit more effectively its drug distribution and pharmacy businesses. Patients and the government could benefit from combining the expertise of pharmacists and doctors.

"We pharmacists know the costs of drugs and can see cheaper alternatives," said Mr Barry Andrews, UniChem's retail director. "Or perhaps more expensive alternatives which are more effective." The cost benefits could be shared between the health service and the private consortium, he said.

Unichem believed such privately-operated centres could go ahead even if Labour wins next year's general election. "As long as they can get patient service not based on wealth, a Labour government is unlikely to block this," said Mr Jeff Harris, Unichem's chief executive.

However Mr Chris Smith, Labour's health spokesman, condemned the idea as a step towards privatisation. "We warned that this would happen, and we will continue to oppose this part of the bill as strenuously as we can," he said.

Mr Smith said Labour was concerned that such private sector involvement in GP services would "fundamentally undermine the doctor-patient relationship".

If doctors were having to consider their employer's need to make a profit that could colour their judgment.

Eurotunnel to restart limited shuttle service

By Charles Batchelor, Transport Correspondent

Eurotunnel is to restart passenger shuttle trains through the Channel tunnel between the UK and France tomorrow, but at less than half normal capacity because of restrictions imposed after last month's fire.

Only three shuttle trains – carrying passengers and their cars – will run every two hours, compared with up to four trains an hour before the fire. Priority has been given to the high-speed Eurostar trains between London, Paris and Brussels, and to long-distance freight services, both of which are operating at nearly full capacity.

The restrictions mean that Eurotunnel will not be able to take full advantage of the pre-Christmas upturn in demand, allowing the ferries to continue to benefit from the tunnel's partial closure.

However, because of the backlog of passengers who bought tickets before the fire Eurotunnel sees no need for special promotions and will charge normal "brochure" prices. "Our telephone lines have been very busy," a spokeswoman said.

In an advertising campaign which began yesterday Eurotunnel said , because of the anticipated high level of demand, travel would be restricted to passengers who had made advance reservations. Customers who had already bought tickets were advised to reserve a date and a time for their crossing.

It remains to be seen whether Eurotunnel's expectation that large numbers of passengers will return to the tunnel are borne out. Thirty-four lorry drivers and train crew had to be led to safety through thick smoke after a fire on a freight shuttle on November 18.

The re-launch comes a week after Eurostar resumed its services through the tunnel. The inter-governmental safety commission gave its approval for passenger trains last Monday.

Trains can use two-thirds of the fire-damaged tunnel but switch to the undamaged tunnel at the two undersea cross-over points. The middle section of the damaged tunnel is expected to take five months to repair.

Eurotunnel has been required to take additional safety precautions and has emergency trains at each end of the tunnel as well as emergency vehicles in the service tunnel.

Business Travel, Page 18

Gas users 'must warn on needs'

By Robert Corzine

Large commercial and industrial gas users who fail to liaise closely with their suppliers on likely gas needs could face higher charges in future, according to Alliance Gas, the UK subsidiary of Statoil, the Norwegian state energy group.

Mr John King, managing director of Alliance Gas, said flaws in the regulatory structure of the liberalised commercial and industrial gas market had raised the financial risks to suppliers. From this autumn, big penalties can be imposed on suppliers that fail to balance the amount of gas they put into British Gas's pipeline system each day with that used by their customers.

A sudden rise in consumption by a large customer could leave the suppliers exposed to penalties under the Network Code, the complex set of rules that governs the competitive gas market. Suppliers must make up for any shortfall between the amount they send through the British Gas network and the amount demanded by their customers by buying gas through a "flexibility mechanism". This is mainly an overnight market in which prices can be as high as £3 a therm, compared with less than 15p a therm on the informal spot market that operates during the day.

In future, gas customers are likely to have to bear a large portion of the extra cost. "Customers will be judged about how well they communicate with their supplier," said Mr King. "High risk customers should expect higher prices" to reflect the new reality of the industry.

He predicted that some smaller gas suppliers might be driven out of the market. "I think there will be a few casualties over the winter."

Commercial and industrial gas users have enjoyed steep falls in gas prices in recent years, due in part to a surplus of North Sea gas. But fierce competition has also fuelled a price war.

Mr King was concerned that many other shippers had not warned their customers. He said many industrial customers with "interruptible" gas contracts were also not fully aware of the risks of being cut off if cold winter weather sent household demand soaring.

Mr King saw dangers in the pace at which the domestic gas market was being opened to competition. "We are still struggling to manage half a million commercial customers," he said.

Lender in new housing venture

By Mark Suzman, Social Affairs Correspondent

Nationwide is set to become the first big lender to commit funds to a Local Housing Company, the new vehicle being heavily promoted by the government as the future for state-subsidised housing.

The UK's second-largest building society is planning to form an LHC with a city council for a planned £21m redevelopment project on a site on the river Medway in Kent, south-east of London.

The government is pushing LHCs, provided for in the recently passed Housing Act, as the organisations best placed to continue the rapid expansion of the social rented housing sector.

Since 1988, independent housing associations have been the primary providers of new social housing, attracting more than £10bn in private finance to match government grants.

But lenders have so far been cautious about supporting the proposed housing companies, which allow for tenant and local authority representation on their boards.

However, according to Mr Jeremy Wood, head of housing and business finance at Nationwide, the building society is in detailed negotiations with Rochester-upon-Medway council, interested associations and the local community to form an LHC.

A deal is expected early next year. "We haven't finalised the terms yet and the pricing is likely to be a little more expensive than for traditional housing association loans, but we're quite confident of agreement," he said.

While the move is encouraging for the future of LHCs, it is focused on building new houses and does not incorporate a large scale voluntary transfer of council housing to the private sector – the government's main aim.

Such transfers have traditionally been successful in rural districts which tend to offer good security because of relatively high-quality housing stock, but have not worked for run-down inner city estates.

Mr David Curry, the housing minister, is hoping the administrative structure of the new LHCs will win over tenants and local authorities that have previously been hostile to LSVTs, and allow for the injection of private capital to pay for badly needed repairs and maintenance.

In its annual Budget last month the government announced a series of measures to kickstart this process, including a £70m, three-year challenge fund aimed at inner city areas willing to set up housing companies for redevelopment. But Mr Wood warned: "It will take a little while before lenders become confident about LSVTs."

UK NEWS DIGEST

Managers hit at Budget forecasts

Seven out of 10 managers expect interest rates to rise before the next general election amid widespread scepticism about the optimistic economic forecasts in last month's Budget, according to a survey published today.

A poll by the Institute of Management also shows that 71 per cent of managers believe they have not personally gained from the Budget unveiled by Mr Kenneth Clarke, the chancellor of the exchequer, last month.

Some 59 per cent of managers say the Budget will do little to encourage business investment. Only a quarter of managers thought a reduction in corporation tax would be of benefit compared with 54 per cent who did not.

Just over half the managers, 53 per cent, said the Budget focused on short-term political concerns rather than long-term economic issues. *Leyla Boulton*

■ WORKING OVERSEAS

Companies urged to help partners

Companies should give more help to the partners of staff they want to work overseas, according to a survey by the Confederation of British Industry and Organisation Resources Counselors, the management consultants.

The survey says companies expect dual careers to have an increasingly important impact on the take-up and success of overseas assignments. Some 70 per cent of organisations questioned believe that working partners are more frequently raised as a barrier to taking international positions. Nearly half the 452 organisations surveyed believe that more employees are refusing to work abroad because of the loss of their partner's income. A similar proportion believe more staff are refusing to work abroad because of damage to their partner's career and loss of job progression and opportunity – higher percentages than in previous surveys.

The report says only 38 per cent of companies with expatriate staff have a formal policy to help the employee's partner. Some 42 per cent have informal or *ad hoc* policies. The survey shows the expatriate world is still male-dominated. In more than half the companies, 75 per cent of the expatriate staff are male, and in more than a third women make up fewer than 25 per cent of expatriate staff. Nearly 33 per cent of male expatriates are accompanied abroad by their partners, whereas more than 50 per cent of female expatriates are single. *Andrew Bolger*

■ MILLENNIUM EXHIBITION

Business plan due this week

Fierce lobbying is expected as organisers prepare for a crucial meeting this week of the Millennium Commission. the body in charge of dispensing funds for the £700m ($1.15bn) exhibition in Greenwich, London, celebrating the dawn of the new century. The commission is due on Wednesday to finalise a business plan put forward by Millennium Central, the exhibition's operating company. Millennium Central must then seek government and opposition approval to extend the amount of time the commission receives funding – beyond 2000 – in order to underwrite the development. Millennium Central will deliver a balanced budget plan, suggesting any extension of the commission's £300m-a-year National Lottery funding would be for guaranteeing purposes only. This is important as the commission appears united in its determination not to contribute more than £200m towards the cost of the exhibition. *Christopher Price*

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY

Abbey National Treasury Gtd FRN 1999 $14.14
Anglo Irish Bank FRN 1998 £147.82
Anheuser-Busch Cos $0.24
Bowthorpe 3.21p
British Dredging 2.6p
Densitron Int 0.6p
Electric Power Dev 8⅛% Gtd Nts 1998 $81.25
Halifax Bldg Scty 7.5% Nts 1997 £375.0
Harrisons & Crosfield 3.6p
Hydro-Quebec 6.50% Db Ser IK 1998 £65.0
Japan Finance Corp for Municipal Enterprises 8.375% Gtd Bd £32.22
Malbak Global Dep Rcpts R0.40
Morgan Stanley Equity (CI) Pf Equity Quarterly-Pay to Guinness 5.16375p
Norway FRN Dec 2002 $139.71
Perpetual Inc & Growth Inv Tst 1.75p
United Kingdom 7¼% Bd 2002 $72.50
Uppsala FRN 1998 $297.01

■ TOMORROW

Alexanders 9.5% Cm Pf 3.325p
Allied Signal Inc $0.225
Cardiff Automobile Rcvbles (UK) No 2 Class A FRN 1997 £182.01
Do Mezz FRN 1997 £182.01
Chevron $0.54
Dun & Bradstreet $0.25
Electronic Data Systems $0.15
Exxon $0.79
Finsbury Tst 1.7p
Do A Non Vtg 1.7p
Fuji Bank Intl Fin Perp Sb Gtd FRN $16319.97
Fuji Bank Y4.25
General Motors $0.40
Halifax Bldg Scty 13% Perm Int $3406.25
Do FRN 1999 $14.30
Headlam 1.45p
Honda Y7.0
Houston Inds $0.375
IBM $0.35
JJB Sports 1.5p
Kleinwort Development Fund 12.6p
Mitsubishi Tst and Banking Y3.00
Mitsui Tst & Banking Y2.50
Nat West Bank Var Rate Cap Nts £156.95
Nippon Credit Bank (Curacao) Fin Gtd Fxd/FRN June 10 2004 £3145.31
Do Gtd Fxd/FRN Dec 2004 £3145.31
Portman Bldg Scty FRN 1997 £147.82
Road Management 9.18% Gtd Sec Bd 2000-21 £459.0
Sabre Intl (No.2) Series N Variable Rate Sec Nts 1996 Y20913.0
Do Series Q Var Rate Sec Nts 1996 Y23441.0
Sakura Bank Y4.25
Sanwa Bank Y4.25
Standard Chartered Und Prim Cap FRN $296.74
Sumitomo Bank Cap Mkts Inc Gtd Fxd/FRN 2003 $31071.88
Sumitomo Heavy Industries Y23777.0
Sumitomot Realty & Dev Y305000.0
Do 3.55% Nts 1999 Y355000.0
Taisei 7.1% Bd 1998 Y710000.0
Do 7.1% Bd 1999 Y710000.0
Tenneco $0.45
Texaco Cap $0.85
Toray Inds Y3.50
Treasury 8% 2003 £4.00
United Technologies $0.55
Walker Crips Weddle Beck 1.25p
Walker Greenbank 1.3p
Warner-Lambert $0.345

■ WEDNESDAY DECEMBER 11

CRT 3.175p
Eksportfinans 7⅞% Nts 1996 $393.75
Hepworth 5.5p
Kubota FRN 1997 Y21782.0
Prestwick 0.5p
RPT Mngmnt 1.5p
Smith & Nephew 2.29p
Treasury Fltg Rate 1999 £1.3876
Wescol 0.7p

■ THURSDAY DECEMBER 12

Bankamerica $0.54
Cobham 3.5p
Cox Insurance 1.75p
Eaton Fin 12½% Un Ln 2014 £6.25
Exchequer 12% 2013/17 £6.0
GWR 1.53p
Hammerson 6½% Sb Cv Bd 2006 £162.50
Ireland Res Mortgages (No 1) Class A1 Mtg Bckd FRN 2025 IR£1468.01
Johnston 4.5p
Melrose Energy 0.58p
Pfizer $0.30
Sapporo Breweries FRN 1997 Y190571.0
Tudor 0.33p

■ FRIDAY DECEMBER 13

CSX $0.26
Capitol 1.5p
Dana $0.25
DFS Furniture 6.9p
English China Clays 5.5p
Fujitsu 3⅛% Bd 2000 (Wmts) $312.50
Do 3⅛% Bd 2000 (Without Wmts) $312.50
Gerrard 8p
Gracechurch Mortgage Fin (No 2) Class A Mtg Bckd FRN 2028 $960.97
Do Class B £1754.23
Do (No 3) Class A Mtg Bckd FRN 2029 £1036.05
Do Class B £1716.93
Gracechurch Personal Loan Fin (No 1) Class A FRN 1998 £51.45
Do Mezzanine FRN 1998 £317.07
Independent Parts 2.2p
Investors Capital Tst 5¼% Cm Pf £1.8375
Kajima Y4.50
NT & T Y2500.0
Pressac 2.91p
Tex 2p
Torex 0.4p
UDO 7.75p
Young & Co's Brewery A 7.35p
Do N/Vtg 7.35p

■ SUNDAY DECEMBER 15

AECI 5½% Gross Cm Pf 2.2p
Blenheim 6.4% Cv Cm Pf. 3.2p
Caisse Nationale des Autoroutes 16% Gtd Ln 2006 £400.0
Canadian Gen Invs $0.075
Pennzoil $0.25
TRW $0.31

UK COMPANIES

■ TODAY

COMPANY MEETINGS:
Mercury Keystone Inv Tst, 33, King William Street, E.C., 12.30
TR Far East Income Tst, 3, Finsbury Avenue, E.C., 12.00
BOARD MEETINGS:
Finals:
API Group
Dwyer Estates
Electronic Data Processing
Firth Rixson
Reed Executive
Slimma
Unidare
Interims:
Cardo Engineering
Ideal Hardware
Mulberry Group

■ TOMORROW

COMPANY MEETINGS:
DFS Furniture, Moat House Hotel, Warmsworth, Doncaster, S. Yorkshire, 10.00
Gartmore European Inv Tst, 8, Fenchurch Place, E.C., 12.30
Intereurope Technology Svs, 21-23, East Street, Fareham, Hampshire, 11.00
London & St Laurence Inv Co, 10, Orange Street, W.C., 12.15
Millwall Hldgs, New Connaught Rooms, Great Queen Street, W.C., 10.00
Scottish National Tst, Charles Oakley House, 125, West Regent Street, Glasgow, 12.00
BOARD MEETINGS:
Finals:
Alders
Celltech
Compass
Holmes & Marchant
Housiock
Leeds Group
Sage Group
Waterfall Hldgs
Wheeesoe
Interims:
Alba
Anglian Group
Berkeley
British Land Co
BSS
Capital for Companies VCT
Chubb Security
Drummond Group
Halma
Hill Hire
Precoat Intl
Tarns (John)
Theo Fennell
Total Systems
Triad Group
Vtech Hldgs

■ WEDNESDAY DECEMBER 11

COMPANY MEETINGS:
AG Hldgs, St Paul's House, Park Square, Leeds, 11.00
BWI, 1, Finsbury Avenue, E.C., 11.00
Bridport-Gundry, 29, Gresham Street, E.C., 12.00
Dickie (James), 29, Gresham Street, E.C., 10.00
Eurovale, 3, Meadow Court, Amoss Road, Sheffield, 11.00
Financial Publications, Intl Management Centre, 26, Finsbury Square, E.C., 11.00
Fleming Chinese Inv Tst, Chartered Accountants Hall, Moorgate Place, E.C., 3.30
Premium Underwriting, 5, Dunsway Street, Edinburgh, 11.00
Schroder Ventures Intl Inv Tst, 120, Cheapside, E.C., 11.00
Town Centre Securities, Town Centre House, The Merrion Centre, Leeds, 2.30
UDO Hldgs, Great Eastern Hotel, Liverpool Street, E.C., 11.00
BOARD MEETINGS:
Finals:
Airtours
Apollo Metals
Avon Rubber
NFC
SEP Intl Hldgs
Titon Hldgs
Interims:
Atkins (WS)
Balmer (HP)
First Technology
Greene King
Smith (David S)

■ THURSDAY DECEMBER 12

COMPANY MEETINGS:
British Empire Securities & Gen Tst, Saddlers' Hall, Gutter Lane, Cheapside, E.C., 12.00
Creston Land & Estates, 34, Grosvenor Gardens, S.W., 12.00
Ferraris Group, 62, Threadneedle Street, E.C., 10.30
Glasgow Income Tst, Merchants' House of Glasgow, 7, West George Street, Glasgow, 4.00
Orb Estates, 110, Cannon Street, E.C., 11.30
Tepnel Life Sciences, Toft Hall, Knutsford, Cheshire, 12.00
WEW Group, Marriott Hotel, 500, Argyle Street, Glasgow, 11.00
BOARD MEETINGS:
Finals:
Baggeridge Brick
Care UK
Countryside Properties
Dunedin Smaller Cos
Greenalls Group
M&G Group
Victrex
Interims:
Cook (DC)
Fine Art
Harvey Nichols
London Electricity
MS Intl
Phonelink
Reliance Security
Scottish Hydro-Electric
Swan (John)
Wainhomes

■ FRIDAY DECEMBER 13

COMPANY MEETINGS:
ABI Leisure, Holiday Inn, Wellington Street, Leeds, 12.00
Bett Brothers, Invercarse Hotel, Perth Road, Dundee, 10.00
Fidelity Special Values, 25, Lovat Lane, E.C., 12.00
Wardle Storeys, Brantham Works, Brantham, Manningtree, Essex, 9.30
Wolseley, Vines Lane, Droitwich Spa, Worcestershire, 2.30
BOARD MEETINGS:
Finals:
Bankers Inv Tst
Grainger Tst
Interims:
M&G Second Dual Tst
Moorgate Smaller Cos Inc
TR Technology

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent annoucements.

هكذا من الأصل

Valencia

Analysts are excited and exasperated

Some of Spain's most innovative entrepreneurs and businesses come from Valencia. Reformists in the regional government want to help it make the most of its undoubted assets. But it is also a region riddled with paradoxes, writes Tom Burns

What is one to make of a wealthy, skilled, and entrepreneurial society that spends tens of thousands of working hours a year diligently crafting objects that literally go up in smoke?

Strategically located on the Mediterranean coast where it accounts for 15 per cent of Spain's exports, the densely populated region of Valencia immediately suggests a string of paradoxes.

The annual Las Fallas festival in March, when hundreds of huge and ornate papier-mâché sculptures called *ninots* are turned into funeral pyres amid deafening firework displays in the city of Valencia, is a metaphor for an area that succeeds in both exciting and exasperating analysts.

The region, home to 10 per cent of Spain's population, contains some of the best companies and some of the most interesting business prospects to be found in the country. But its highly diversified economy is frequently hostage to an exacerbated individualism which manifests itself in thousands of small enterprises that take off like rockets only to fizzle out as other rockets rise up to seize the onlooker's attention.

"We have a surfeit of first generation entrepreneurs who start up little businesses with a low capital base. Individualism is part of Valencia's tradition," says Mr José Maria Tabares, an executive of Ivex, the regional government's export agency. The spread of small companies is startling; excluding the Ford motor plant which is situated just south of the city of Valencia, the 100 top companies in the region account for only 47 per cent of its exports.

One of the most surprising features on the corporate landscape is that the region has been unable to achieve a knock-on affect from the huge investment by Ford motor company when it built its Valencia car plant 20 years ago. However, an industrial park that was opened this year alongside the plant has finally begun to break down the oasis-like image provided by the Ford factory.

Occasionally, Valencia shoots itself in the foot. Earlier this year, environmentalists blocked a well-funded incinerator project that would have turned the region into the domestic leader for industrial waste management. At least one chemical multinational located in Valencia, which is forced to transport its waste by sea to France, shelved plans to expand its facilities when the incinerator project was abandoned.

On other occasions, the regional government shows quick reflexes. When IBM announced the closure of its local plant 18 months ago, the authorities backed a contract electronic producer, Manufacturers' Services Limited, which managed to increase the business that IBM had walked away from and now runs Spain's second largest computer plant.

The future of this plant constitutes a test case for Valencia's ability to attract inward high-tech investment. Technolgy transfers will significantly boost the ceramics industry in the region's northern province of Castellón and also the shoe and toy manufacturers that are located in the southern province of Alicante.

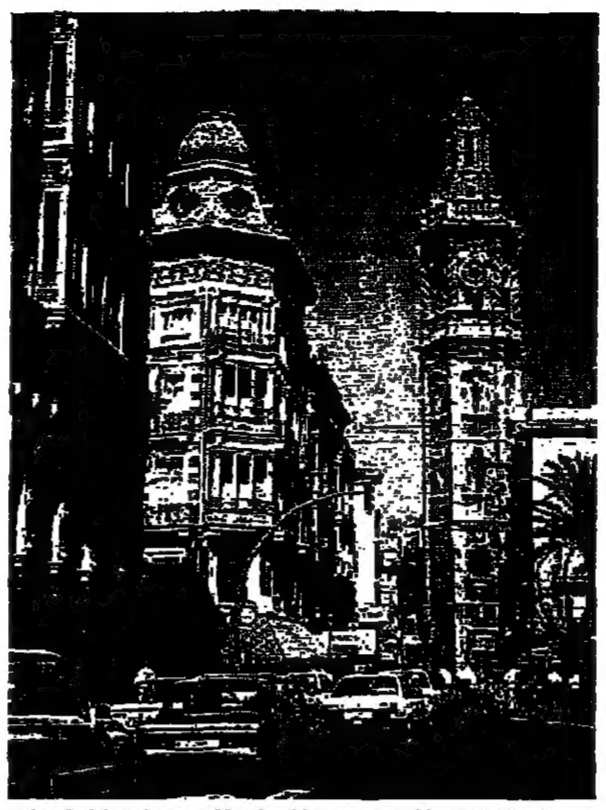
The top companies in all three sectors are very modern but they are nevertheless small by international standards. In the main, however, the companies are virtually cottage industries and they prosper because their employees form part of the informal economy and do not pay social security contributions.

One of the region's self-evident paradoxes is that it imports labour from elsewhere in Spain as well as from the North Africa and yet its registered employment is above the national average.

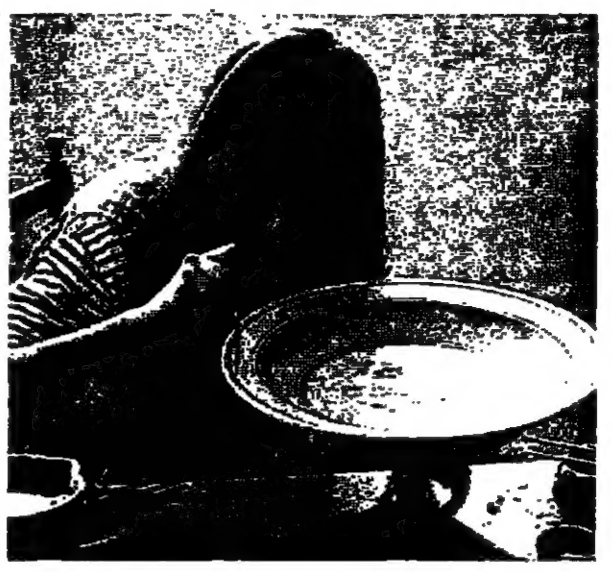
The region's agricultural sector is efficient by European standards but it is only recently that a handful of pioneering companies have begun to invest in value-added initiatives such as fresh orange juice plants that will help the sector to realise its full potential.

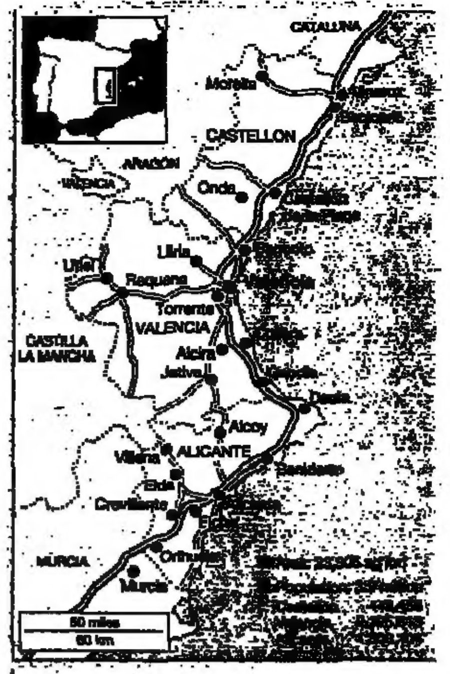
A Citrus Futures Market, launched last year in Valencia with the aim of injecting financial stability to local agriculture's main cash crop, is making slow progress in its attempts to attract local growers and middlemen.

About 20 per cent of the region's gross domestic product is accounted for by tourism, but Benidorm, which has grown spectacularly by expertly identifying the mass holidays market, is still in the throes of studying possible investment in big leisure products such as theme parks.



Valencia (above): every March, citizens painstakingly fashion huge papier-mâché sculptures (right) for the Las Fallas festival. The ceramics sector illustrates some of Valencia's strengths and weaknesses (Report, Page 3) *Pictures: Spanish Tourist Board, Eye Ubiquitous*





	1994	1995
Total GDP (Pta billion)	6,940	7,005
Imports (Pta billion)	1,013	1,157
Exports (Pta billion)	1,442	1,625

Principal exports	
Vehicles	18.0%
Agric. products	15.4%
Shoes	11.8%
Ceramics	10.8%

Sources: Valencia Chamber of Commerce; Generalitat Valenciana

Large communities of foreigners have have retired to the region of Valencia but there has been only minimal official interest so far in developing what could be a lucrative ageing sector business.

The city of Valencia itself, the largest in Spain after Madrid and Barcelona, is the centre for a succession of annual trade fairs and the closest seaport to the Spanish capital. It has one of the busiest harbours in the country but still lacks motorway and fast railroad links to Madrid. Big infrastructure programmes are due to remedy the region's relative isolation in the near future and ease the bottleneck on its export traffic.

Valencia's airport, which has been described as a landing strip among the orange groves, urgently needs to be enlarged. The successful recent start-up of Air Nostrum, a regional airline owned by the region's wealthy Serratosa family, has underlined both the airport's present shortcomings and the potential of its future growth.

Valencia city, like many in Spain, has been the victim of past land speculation and of bad urban planning. Its authorities seem, however, to be more interested in building "emblematic" cultural centres (the model for a complex that is pretentiously called the "city of arts and sciences" looks like a *Star Wars* space station) than in sprucing up the inner city and in restoring its stunning architectural heritage.

And the paradoxes about Valencia go even deeper.

Thrifty and productive but also anarchically effervescent, the region works hard and plays hard. The oddity is that *Valencianos* tend to co-operate best among themselves when they are celebrating their fiestas; they come together to painstakingly fashion *ninots* and to form large brass band ensembles that are the boast of every neighbourhood and every village.

"Our economy has emerged from small agricultural allotments and it still has an overdose of individualism," says Mr Rafael Aznar, a senior executive at the port of Valencia who is attempting to build the city's harbour into Spain's main container traffic centre.

"Industry is terribly atomised and it needs to concentrate," says Mr David Baker, a Valencia-based British banker who is seeking to consolidate local venture funds. In common with Valencia's more thoughtful businessmen, they believe that the region's past boom-and-bust cycles are the result of poor planning by a host of small family companies. The problem is that *Valencianos* rebuild fortunes as rapidly as they lose them, and there is a widely held view that the annual blowout in Las Fallas illustrates a society that is basically wholly satisfied with the ways things are and therefore unwilling to change.

The new centre-right regional government appears to be aware of the dangers of too much complacency and is anxious to spur a sturdier economy that will allow the formation of larger companies and attract sustained capital inflows. It has introduced fiscal rectitude to the regional budget which is an important step in the right direction and it is strongly pro-business.

The reformists in the regional government want to help Valencia make the most of its undoubted assets. Obviously, they wouldn't dream of tampering with the explosive party tradition.

■ **The economy:** by Tom Burns

Caution is understandable

The strategy is to make Valencia an economic hub for the western Mediterranean

When the centre-right Popular party came to power in Valencia midway through 1995, it set about putting the region's finances in order. Mr Eduardo Zaplana's government insists that budget rectitude is the prerequisite for the growth of the local economy.

This priority forms part of a broad platform that favours private enterprise and market forces. The objectives are clear enough but implementing the policies could take time. "After so many years of socialism we have to move step-by-step; we can't overnight change the perception that it is the state's role to fuel all demand," says Mr José Luis Olivas, regional minister for the economy.

The caution is understandable. Mr Zaplana's government has to balance its belief in economic liberalism with the need for sustained public investment and for continued interventionism. Considerable spending is required to improve the region's infrastructure and Valencia's diverse economy needs government-driven restructuring programmes in order to realise its potential.

Austerity framed the new regional government's first budget which trimmed a 1995 deficit of Pta63bn to Pta32bn this year. Mr José Manuel Uncio, who runs public accounts at the Instituto Valenciano de Finanzas, believes that a balanced budget is achievable in 1998 after the approval by Valencia's legislature of further cuts that will reduce the 1997 budget shortfall to Pta11bn.

Air Nostrum: Spain's fast-growing regional airline *Picture: Julie Fairhead*

The drive to impose rectitude was boosted by new guidelines that increased Valencia's fiscal autonomy along with that of Spain's other regions. The Valencian Generalitat is now responsible for raising and administering 30 per cent of income tax raised in the area, up from 15 per cent, and the development is welcomed by the regional government's economic team.

"For a start, it means we can act a lot better against fraud," says Mr Javier Quesada, the director-general of economy. Mr Quesada is convinced that official statistics which record registered unemployment at 15 per cent, marginally above the national average, are untrue. "We are definitely well below the national average and we import labour into the bargain."

Increased fiscal autonomy also allows the Generalitat more possibilities for spotting trends and allocating resources accordingly. Such agility is important for Valencia's economy. It is far more open than is the national economy and it anticipates Spain's economic cycles.

Valencia, like Catalonia, the region's northern neighbour – but unlike Spain's more backward areas – would like as much fiscal autonomy as the central government in Madrid government will permit. There is a strong sense of self-reliance among the *Valencianos* and their regional government believes that policy planning gains in efficiency the closer it is to ground level.

The public spending is focused on communications and the canals and rivers infrastructure. Railway investment figures high on the agenda because the Generalitat wants to build up rail links to Valencia from the inland towns of Alicante province in the south, where the shoe and toy manufacturers are based, and also from the ceramic and glazed tile producing centres in the northern province of Castellón.

The prestige railway project is a high-speed train to Madrid and to Barcelona which is at the blueprint stage in Madrid's development ministry. Mr Zaplana's government in Valencia is anxious to line up locally-based project finance to put this ambitious investment on the right track. He believes that a proportion of the cost could and should be undertaken by Valencia's private sector.

Earlier this year, agreement was reached on the completion of a motorway between Madrid and Valencia that had long been held up by an environmental dispute. By the end of the century, the road transport infrastructure of the Valencia region will be significantly improved by a motorway to Zaragoza that will link with a new road entry point to France via a tunnel through the middle of the Pyrenees.

One of the features of Valencia's economy is that proper transport infrastructure has lagged behind industrial activity and this suggests that the sudden burst of investments to revamp communications will act as a considerable stimulus to the local economy. The Generalitat sees the transport programmes as part of a strategy that will turn Valencia into an economic hub for the western Mediterranean. The regional government is particularly anxious to build up Valencia's port, which is already Spain's largest container port, and also Valencia's airport, the base of the country's fastest-growing regional airline, Air Nostrum.

Increased fiscal autonomy and ground-level decision-making have allowed the Generalitat's policy planners to take a long and hard look at how economic activity is organised in the region. Mr Quesada believes in a "bottom up" approach to restructuring industry.

The main problem facing Valencia's multi-directional productivity is that it is based on small and medium companies that are unable to develop economies of scale. The Generalitat accordingly wants to encourage alliances, sales networks and consortiums.

Manufacturers are responsive to initatives aimed at improved marketing and they are increasingly involved in technology institutes that are funded by the Generalitat and run by local producers. The institutes, which range from the shoe sector to the agribusiness industry across the extensive range of what Valencia produces, allow companies to fine tune their manufacturing processes and test their products.

Valencia's Generalitat has no intention, however, of fostering family-based companies. Its horizons are firmly set on attracting important corporate investments and repositing the region's self-evident productivity around economic "clusters" that bring together suppliers and producers of a given sector.

With a sound credit rating thanks to budgetary discipline, with a firm weighting towards the private sector and greater fiscal leeway, and with an overhauled infrastructure, the mood is confident.

On the road to victory: José María Aznar, prime minister, at a Popular party campaign rally *Picture: Reuter*

■ **Politics:** by Tom Burns

Shop window for the Popular party

The region is looked upon as a testing ground for centre-right policies

Mr Eduardo Zaplana, chief executive of Valencia's *Generalitat*, the regional government, was talking about the need to build up civil society and to check the growth of bureaucracy. In the street outside the magnificent 15th century Generalitat palace, a crowd of public sector employees neatly highlighted his concerns by shouting slogans and blowing whistles.

The noisy demonstrators were protesting over a pay freeze that has been written into Spain's 1997 budget, over social spending cuts and over plans to privatise public companies and to whittle down the civil service.

The package of measures has been dictated by the centre-right Popular party government in Madrid but the crowd had sensed, quite correctly, that Mr Zaplana was not only four square behind it but also better placed than most politicians to implement it.

The region of València, once a solid Socialist fiefdom, is increasingly looked upon as the testing ground and the show window for the centre-right policies of Mr José María Aznar, the prime minister.

"The prime minister wants Valencia to succeed and to set the pace for the Popular party elsewhere," says Mr Zaplana. "I'm absolutely convinced of that".

Hand-picked by Mr Aznar four years ago to run the Popular party in the area, Mr Zaplana ousted the Socialist party from the Valencia local government in regional polls that were held in May 1995, a year before Mr Aznar himself narrowly won power in national elections.

The PP's victory in Valencia was held to be a sure sign that the electoral mood was switching to the centre-right and Mr Aznar increasingly chose the area to wind up his campaigns with big rallies in the city's football stadium.

In the event, Mr Zaplana's stock has risen in Valencia over the past 18 months to put his local approval rating at more than 50 per cent, according to regional pollsters, up from the 45 per cent that he gained in the regional elections. Mr Aznar's national rating has in contrast dropped behind that of the socialists.

The differing fortunes between the regional leader and the prime minister owe a lot to the fact that Mr Zaplana is firmly entrenched in power with a near overall majority in the Valencia parliament while Mr Aznar heads a minority government that is dependent on the support of other parties.

Mr Zaplana, who is confident that he has the socialists on the run and counts on the support of a tame ally, the conservative Valencian Union, can do things.

Mr Aznar, who is conscious that the Socialist party is breathing down his political neck, has to establish trade-offs in the Madrid parliament with the Catalan and the Basque nationalist parties both of which can, and do, dilute PP policy initiatives.

"Here we can implement a real change, a profound one that goes further than just changing the names of the people who run the Generalitat," say Mr Zaplana. "Here we can introduce political, sociological and economic change."

Mr Zaplana, 40, was considered a political lightweight before he won power, although as mayor of Benidorm he was responsible for sprucing up the massive resort town. He has begun to adopt convictions about rolling back the frontiers of the state. "What we've seen during 13 years of Socialism here is a political party encroaching on society. I want to return to civil society what properly belongs to civil society."

Valencia used to vote Socialist, he claims, by default because the PP, before Mr Aznar revamped it, was far too right-wing.

"People here are liberals, not left-wing," he says – and nor by implication are the *Valencianos* attracted by traditional, paternalistic and clerical conservatism.

Zaplana: ousted Socialist party from Valencia's local government

He says the main problem is not so much that the socialists governed for so long but that they were responsible for setting up the regional administration when Valencia gained its Generalitat and its self-governing autonomy status at the begining of the 1980s.

"They built up the bureaucracy from scratch; they made it very ideological and they continue to have power centres everywhere."

Mr Zaplana tackled alleged political bias in the regional television service which was set up by the socialists and is funded by the Generalitat in a blatantly partisan fashion by appointing his closest political aide to be its director-general. Now he views the universities and the local savings banks as two areas that are overtly politicised and he is accused by opponents of seeking to undermine their independence.

A snub by a university rector who refused to let him preside over the start of the current academic year rankles. "Its people like that who are acting politically. I want liberalism on the campus, not professors to act according to the diktats of political parties."

His immediate battle is over slimming down what he describes as an over-bloated administration and introducing incentives. As the public employees continued heckling outside the windows of his office, Mr Zaplana spoke about how the unions back a culture that killed motivation and and fostered mediocrity.

It is this sort of language that has made Mr Zaplana something of a hero among the PP's liberal-conservative wing. The party's leading free marketeers regularly visit Valencia and Mr Zaplana has drafted onto his team young economists, sociologists and journalists who are well versed in buzz-words such as "choice" and "enterprise".

Already Mr Zaplana has presented these supporters with a singular prize in the form of an expedient solution to hospital waiting lists in the Generalitat-run public health service. All who had waited more than 90 days for an operation could apply to be treated in a private clinic which had established a contract for providing services funded by the regional government.

Mr Zaplana counters criticism that he is undermining the public health system by saying that a 90-day waiting list of 30,000 patients disappeared within six months. He has nailed his colours firmly to the private sector mast and in a society such as Valencia's that is highly individualistic and which puts a high store on entrepreneurial values, his policies look set to reap dividends.

Mr Aznar, the prime minister, might well look enviously at his party's shop window in Valencia.

FINANCIAL TIMES
COMPANIES & MARKETS

Monday December 9 1996

Club Med risks takeover as share pact ends

By Andrew Jack in Paris

The possibility of a takeover of Club Mediterranée, the French leisure group, will intensify sharply from this morning after the dismantling at the end of last week of a six-year shareholder pact which controlled more than 35 per cent of the voting rights.

Club Med, which has been subject to growing criticism of its financial performance, issued a brief statement after the Paris stock market closed on Friday announcing the end of any requirement on five of its largest shareholders to continue their participation.

The shareholders reached their decision as the terms of the pact, which has been renewed annually since 1990, were coming up for renegotiation. The pact granted them pre-emption rights to buy each other's shares and limited each to a maximum stake of 13 per cent.

Those involved are Exor, the investment holding company owned by the Italian Agnelli family; Caisse des Dépôts et Consignations, the French state-controlled financial institution; Rolaco, the Saudi Arabian investment company; Nippon Life, the Japanese insurance company; and the Compagnie Financière Benjamin & Edmond de Rothschild, the French financial institution.

Following a rights issue at the end of last year, these five investors hold between them 32 per cent of the shares and 35 per cent of the voting rights, which gives them a blocking minority and makes the prospects poor for any hostile takeover attempt.

At the time of the capital increase, a sixth shareholder, the Japanese retail group Seibu Saison, which still held 2.2 per cent of the voting rights the last time the information was disclosed, withdrew from the pact.

Mr Antoine Cachin, Club Med's managing director, said: "The shareholders want more freedom at a time of volatility in the financial markets. They have confirmed to us that they have no intention of selling their shares."

However, the ending of the pact means that any of the investors can sell their stakes or increase them above the 13 per cent ceiling.

In 1995 Exor, which had previously owned 3 per cent of the shares, increased its stake to become the largest investor, with 13 per cent, by buying the interests previously held by the insurer UAP and Crédit Lyonnais, the state-owned bank.

Accor, the French leisure group which holds 2.4 per cent of the shares, has frequently been mentioned as a possible acquirer. However, Mr Serge Trigano, Club Med's chairman, dismissed the idea over the weekend, saying there had been rumours of a takeover for 20 years.

Club Med's shares closed on Friday at FFr317 ($60), having dropped sharply since the summer from a peak of more than FFr500. They fell by 17 per cent in late October after the group issued a warning that second-half operating profits would be lower than expected.

During the nine months to July 31 Club Med reported sales down 7.7 per cent to FFr5.84bn. ($1.1bn).

INSIDE

Pearson

Pearson, the international media group, is acquiring 50 per cent of two South African business publications, Business Day and Financial Mail, in a deal worth R87.5m ($18.9m). African Business Channel, a television production company that produces a nightly business programme, will also be included in the arrangement. Page 24

Canadian

Canadian Auto Workers Union negotiators are to recommend to members a restructuring plan for Canadian Airlines International, allowing the troubled Calgary-based carrier to continue flying. Page 26

CIC

France is considering relaunching the privatisation of CIC, the state-owned banking network, in spite of the difficulties that caused the sale to be pulled last month. Ministers apparently want to sell CIC on its own, rather than along with its parent company, the state-owned GAN insurance group. Page 25

Fund Management

Imro, the financial services watchdog, clearly shows how the UK's fund management sector is changing. Set up under the 1986 Financial Services Act, Imro's senior board now looks more like that of a multinational than a staid regulator. Page 24

Global Investor

Non-US investors have largely missed out on Wall Street's rise. As the Dow powered on, overseas funds kept hoping for a correction that would allow them back into the market without losing face. Friday's drop may present an opportunity but overseas investors may also be able to tap into the US market via the back door, Canada. Page 28

Some wind left in Europe's financial sails

Underlying factors suggest markets are not overstretched

Mr Alan Greenspan, chairman of the US Federal Reserve, sent world stock markets into a spin on Friday by talking about "irrational exuberance" in financial markets. His remarks related to Wall Street, but what about the European equity markets, 11 of which reached new peaks last Tuesday, with Paris and London close behind?

Ironically, European and Asian markets suffered more than the US after Mr Greenspan's comments. Tokyo dropped 3.2 per cent, Hong Kong 2.9 per cent and the French, German and UK equity markets fell 4 to 5 per cent at worst.

One could hardly blame international investors for taking profits. By November 30, the FT/S&P European index was up 18.1 per cent in local currency terms in 1996 and 16.7 per cent in dollars.

European markets may not have had the benefit of substantial economic growth, but the rest of the 1990s environment has been helpful. Low inflation has allowed governments to cut interest rates to low nominal levels. These have reduced corporate borrowers' costs and increased the attractions of equities against cash.

And, together with the efforts by governments round the world to cut budget deficits, low inflation has also allowed bond yields to fall. In Europe, lower bond yields have also resulted from the prospect of monetary union: investors have flocked into previously high-yielding markets such as Italy and Spain in the hope that foreign exchange risk will disappear if the countries join a single currency.

Lower bond yields have also lifted the equity bull market and that may continue, says Mr Michael Hughes, global strategist at BZW, the investment bank.

"The long-term bull market, which dates back to 1981 when bond yields peaked, is intact, but in its third stage. The first stage was inflation coming down. The second stage was corporate restructuring. The third stage is caused by the cost of capital coming down in the form of lower real bond yields."

Bond yields have two parts: the expected inflation rate and the real return investors expect on top. Inflation has tumbled in the 1990s, bringing nominal yields down. But real yields remained high.

They have recently started to fall. The yield on the 30-year US Treasury bond has dropped from 7.2 per cent in July to 6.5 per cent, while US inflation has continued to hover around 3 per cent.

The trend is probably secure for 1997, Mr Hughes believes, since "most governments are planning to reduce their deficits and savings are on the rise", partly because the postwar "baby boom" generation is nearing retirement.

All this helps equities by driving up the demand for financial assets and lowering companies' cost of capital. Investors also hope Europe will enjoy the same kind of corporate restructuring as the Anglo-Saxon economies.

"In Europe, there is a revolution from below as companies take their destiny in their own hands and restructure their part of the economy rather than wait for the government to do so," says Mr Jonathan Francis, head of global strategy at Putnam, the fund manager, in Boston.

The hope is that companies will cut costs, pay more attention to returns on equity, spin off non-core businesses and open up their shareholding structures by unwinding complex alliances.

But so far there has been more talk than action. "There is a difference between those that can take advantage of the new lower cost of capital and those countries where corporate restructuring is not complete or has not really started, such as France," says BZW's Mr Hughes.

A more immediate benefit to European companies has come from the weakness of their currencies against the dollar in 1996. Previously, the strength of the D-Mark, allied to the fiscal retrenchment of governments eager to meet the Maastricht criteria for currency union, had squeezed economies and corporations.

But the D-Mark has dropped from DM1.48 to the dollar to DM1.54 this year, easing the pressure on European exporters and, allied to low interest rates, opening the prospect of a rebound in corporate earnings in 1997.

It is likely to be difficult for all this to lift European markets if Mr Greenspan's comments spark a big fall on Wall Street or a rise in US interest rates.

But European markets may have a cushion. Mr Ian Harnett, director of European strategy at NatWest Markets, says: "The Greenspan comments will focus attention on fundamentals and the good news is that, unlike 1987, when all valuations were extended, this time it is only in the US where valuations are high." The ratio of German benchmark bond yields to dividend yields, for example, is much lower than it was at the peak of reunificiation euphoria in 1990.

European markets have also failed to follow the US all the way up – they have underperformed Wall Street by 25 per cent in dollar terms since 1991 – so they need not necessarily follow New York on the way down.

Philip Coggan

American and BA may sell off slots

By Motoko Rich in London

British Airways and American Airlines would be allowed to sell the airport take-off and landing slots they are being asked to surrender as a condition for approval of their planned global alliance, the UK Department of Trade and Industry indicated yesterday. A slot sale could generate at least £168m ($275.52m) in proceeds.

Mr Ian Lang, the UK trade and industry secretary, announced on Friday that the proposed pact to create the world's biggest airline partnership would not be referred to the Monopolies and Mergers Commission if the partners agreed to conditions including the surrender of 168 slots a week at London's Heathrow airport. These would be awarded to rival carriers.

It is understood the take-off and landing slots could fetch between £1m and £10m each.

Critics of the conditions said 168 slots would yield only a further 12 transatlantic flights a day, which would have to be spread among several rival airlines.

"The number of slots is not only woefully inadequate, but we still believe the whole deal is anti-competitive and will end up being referred the MMC," said Mr Will Whitehorn, spokesman for Virgin Atlantic.

Union backs Canadian Airlines rescue plan, Page 26

Swedish bank rejects minister's charges

By Greg McIvor in Stockholm

Stadshypotek, Sweden's biggest mortgage bank, has hit back at accusations by Mr Erik Asbrink, Swedish finance minister, that it went behind his back during merger negotiations with the insurance group Skandia and that it recommended the deal merely to protect its executives' jobs.

Mr Christer Bergquist, Stadshypotek deputy managing director, said the government's conduct was in sharp contrast with that expected of an institutional shareholder. "Investors have told me that Mr Asbrink's behaviour makes Sweden look like a banana republic," he said.

The tie-up would create Scandinavia's biggest financial services group, with assets of SKr500m ($75m) and a market value of SKr45bn. However, the deal has been clouded by acrimony since it was announced two weeks ago.

Stadshypotek said it was "surprised and unhappy" at repeated allegations by Mr Asbrink, which they believed impugned the integrity of its board.

Mr Asbrink's remarks included a charge that Stadshypotek directors had undermined the government's auction of its 34 per cent stake in their bank, valued at SKr7.7bn. He also suggested they were "rigging the business" to ensure jobs for themselves in the merged company.

The bank said it had repeatedly requested meetings with Mr Asbrink and finance ministry officials in the run-up to the merger announcement. The ministry had refused to read Stadshypotek's analysis of the proposal and had tried to force it to reject Skandia's approach, even threatening legal action.

Mr Bergquist said Stadshypotek's board had recommended the Skandia bid in the interests of all shareholders, not just the government. He dismissed as ridiculous Mr Asbrink's claim that executives were using Skandia to save their jobs.

Mr Asbrink's threat to oust the board at an extraordinary general meeting might prove counter-productive for the government, Mr Bergquist said, because it had created uncertainty and risked driving up Stadshypotek's financing costs.

The finance ministry said it had received a "handful" of indicative bids for its stake in Stadshypotek and the auction process was proceeding. Sweden's banks have been tipped as the likeliest candidates to purchase the holding but it is unclear which, if any, have made a bid.

Officials met representatives of Stadshypotek and Skandia on Friday, for the first time since the merger announcement, to discuss the terms of the offer.

Sparks fly over merger plan, Page 25

Private equity and venture funds 'give best returns'

By Katharine Campbell in London

The best private equity and venture capital funds have produced higher returns than other forms of investment, the first pan-European performance study shows.

It also underscores how management buy-outs outperform early-stage investments because the latter's returns take longer to appear.

The pilot study, released by the European Commission and the European Venture Capital Association, covers independently managed private equity funds raised between 1980 and 1990. Conducted by Graham Bannock and Partners, the UK consultants, it is based on returns to the end of 1994 and is denominated in Ecu.

The absence of performance figures in the past has deterred many pension funds from investing in Europe's private equity industry. The British Venture Capital Association began producing measurements two years ago, but the exercise has proved more complicated across Europe, partly because of different currencies, tax regimes and accounting policies.

While economies have performed differently, the EVCA has not broken down the results by country, hence smoothing them.

In the first attempt to compare asset classes – the BVCA has not to date made such comparisons – the EVCA shows that the better-performing upper-half funds investing in MBOs produced a pooled internal rate of return net of costs of 25.2 per cent. Funds invested in the Cazenove Rosenberg smaller quoted companies index over the period would have returned 10.1 per cent.

Among other findings, while MBOs produced the highest returns, early stage investments fared considerably better in the hands of top fund managers. Upper quartile managers produced a pooled internal rate of return of 12.9 per cent from early stage opportunities, against 2.6 per cent for the whole sample.

The study's methodology will be refined, said Mr Stephen Dawson, who sits on the EVCA investor relations committee. For instance, the pilot excludes so-called captives and semi-captives, which manage mostly or entirely the funds of a single bank or insurance company; listed venture capital funds; and evergreens (investment vehicles with no finite life).

Fund management, Page 24

Pearson expands in South Africa

By Raymond Snoddy

Pearson, the international media group which owns the Financial Times, is acquiring 50 per cent of two South African business publications, Business Day and Financial Mail, in a deal worth R87.5m ($18.9m).

African Business Channel, a television production company which produces a nightly business programme on South African national television, will also be included in the arrangement. African Business Channel is already a 50-50 partnership between Times Media, owners of Business Day and Financial Mail, and FT Television. The new company will be called African Business Media.

Business Day has a current daily sale of 40,200 and the Financial Mail, which is published weekly, 31,100. In the year to the end of March, the two titles had combined turnover of R116.7m, operating profit of R16.2m, and net assets of about R15m.

The deal – Pearson's most direct investment in South Africa so far – is in line with a policy of buying or taking stakes in financial and business publications around the world.

In France, Pearson owns Les Echos and in Spain it owns Expansion, the Spanish business newspaper, through the publishing group Recoletos.

The South African deal, which will be earnings enhancing from the outset, is expected to be completed about the end of the year.

Mr Alan Miller, deputy chief executive of the Financial Times who conducted the negotiations, said yesterday it gave opportunities for development of both groups.

Pearson's attempts to buy Het Financieele Dagblad in the Netherlands are going less well.

The company will this week review the situation following a vote by the paper's staff against a takeover.

The voting shares at the paper are controlled by a three person supervisory board, one of whose members are appointed by the staff foundation.

Watchdog adopts aggressive stance

William Lewis examines the changes afoot at Imro, the UK's financial services regulator

Clear signs of how the UK's fund management industry is changing can be found at Imro. Set up under the 1986 Financial Services Act, Imro's senior executive team looks more now like the board of a multinational than a staid UK financial services regulator.

Mr Phillip Thorpe, chief executive, is a New Zealander, and both Mr Jim Fleming, director of Admissions, and Mr Dan Waters, director of monitoring and enforcement, are Americans. This team, together with Mr Philip Robinson, the British chief operating officer, are overseeing introduction of radical regulatory processes at Imro involving the targeting of resources at firms identified as potentially risky and reducing the regulatory burden on those deemed low risk.

Imro's admissions department has altered its rules and is now expected to closely monitor new firms in the six to nine months after they have gained Imro-authorisation. Imro's culture is also changing and is described by one executive as "aggressive, verging on gung-ho". It has become increasingly open about its operations, and was the first UK financial services watchdog to launch pages on the Internet, including details of all recent disciplinary actions taken.

Training and education has been put at the "forefront of our regulatory efforts", says Mr Robinson. Next year Imro plans to extend its regulatory rules to back office staff at fund management companies. And last week it became a founding member of the Personal Finance Education Group, a body dedicated to improving young peoples' knowledge of financial services.

Imro is also discussing the possibility of regulating more closely the activities of senior managers of fund management companies, perhaps through insisting on more stringent training. "There is no room for amateurs in running these companies anymore," says Mr Thorpe. "A question we are asking ourselves internally is that given the pressures of the industry today, should we be providing benchmark training and standards for senior managers themselves?"

For an industry undergoing rapid consolidation and also becoming increasingly competitive, Imro's approach to regulating the industry would appear to be spot on.

Nevertheless, some of the changes are causing unease at several Imro-regulated firms. One leading fund manager said that "what you have there are a lot of people

FUND MANAGEMENT

keener to make names for themselves than anything else". An executive at another UK financial services regulator said that "effective regulation is not about making headlines, and I'm not sure Imro recognise that".

Mr Thorpe acknowledges that some firms may be critical of the way Imro is operating, but he argues the changes are inevitable given developments in the UK's fund management industry. "Regulators mirror the complexity of their industries rather than create it," he says.

One example is the way that foreign-owned but Imro-regulated fund management companies are being restructured so that they will be controlled by managers outside the UK. Dresdner Bank, which owns Kleinwort Benson Asset Management, and Barclays have both announced that control of their global fund management operations is being moved to San Francisco. How can Imro ensure that it is able to fulfil its mission statement – to protect investors through enforcing standards "effectively and efficiently" – if supervision, and possibly effective management, of a company is outside the UK?

Such tensions were illustrated last month when Mr Thorpe publicly criticised Deutsche Bank's announcement that it was planning to transfer supervision of the UK-managed retail funds of Morgan Grenfell Asset Management to its German investment subsidiary. It followed the scandal over the activities of Mr Peter Young, the sacked unit trust manager.

Mr Thorpe said that he had not received any request from Deutsche and warned in a statement that if part of a fund management company's management structure "is located in another jurisdiction, it will have an important bearing on our consideration". He added: "Clearly any physical separation of related management or compliance functions is not ideal, in some circumstances it may not be acceptable".

In August, when Imro and the Securities and Futures Commission, the Hong Kong regulator, levied fines against Flemings, the investment banking group, after one of its top fund managers diverted profitable trades to his own personal account, Mr Thorpe stated that the disciplinary action was a warning that international fund companies based in the UK "must ensure those London standards are applied throughout the operation".

A partial solution may be found in Imro developing closer links with regulators in other countries. Mr Thorpe says that Imro has "excellent relations" with the regulators in the US and Hong Kong but he is less confident of fund management industry watchdogs in the other markets such as Germany.

He said last week that through the International Organisation of Securities Commissions Imro is attempting to "pass on the knowledge and experience that we have accumulated in the hope that other markets take note of it and perhaps adopt it". He added: "We have built up this expertise and we want to try to export it".

British Gas talks to focus on Morecambe

By Robert Corzine

Negotiations between British Gas and its main North Sea gas suppliers over revising take-or-pay contracts are expected to focus increasingly on the company's Morecambe Bay fields, the biggest single gas reserve in the UK.

There have been suggestions that both the north and south fields could be sold. The book value of the two fields is about £1.5bn, ($2.46bn) although industry consultants Wood Mackenzie have estimated the net present value at closer to £2.7bn, based on the current contract price of 24p a therm.

Interest in the future of the fields was heightened after British Gas announced last week that it had successfully renegotiated its gas sales contracts with British Petroleum, one of its main suppliers. The deal was thought to have cost British Gas about £250m.

But Mr Richard Giordano, British Gas chairman and chief executive, hinted strongly that future deals would be based on assets, with the wholly-owned Morecambe fields being the focus of attention.

In the short to medium term, British Gas needs the fields to underpin the smooth running of its domestic gas supply monopoly for 19m households. Over the longer term, Morecambe's operational importance will probably decline along with the group's share of the domestic market, which is due to be opened fully to competition in 1998.

Why surrender may be a boon

BA and American face losing 168 slots. Motoko Rich reports

Officials of the UK Department of Trade and Industry will face a barrage of lobbying over the coming weeks from airlines opposed to the planned alliance between British Airways and American Airlines.

On Friday, Mr Ian Lang, trade and industry secretary, set out the conditions under which he would be prepared to accept the pact without referring it to the Monopolies and Mergers Commission.

Between now and January 10, BA and other interested parties will be invited to give their views on the proposed undertakings, which involve the surrender of 168 of BA and American's weekly take-off and landing slots – representing 84 flights – at London's Heathrow airport.

Malcolm Watson

Bob Ayling: 'the permanent, unconditional divestiture of slots is unprecedented'

Competitors argue this is an insufficient number of slots to level the playing field. Richard Branson's Virgin Atlantic, which owns the rights to about 140 slots, and Delta, which does not have any Heathrow slots, are both calling for a referral to the MMC.

United Airlines, which already has slots at Heathrow, said: "We are happy to compete with the alliance but it has to be on an equal basis and at the moment 168 slots is not going to do it."

For BA and American, surrendering the slots may turn out to be a boon. For not only should BA and American be able to choose which slots to hand over to competitors, but they will be allowed to sell the slots for a profit.

The DTI said yesterday it did not, in principle, see any reason why the airlines should not be allowed to sell the slots to competitors.

Mr Bob Ayling, BA's chief executive, said on Friday that "the permanent, unconditional divestiture of slots is unprecedented, and, if done, it must be on the basis of fair market value". The company would not be drawn on what constituted fair value, but it is understood the group would charge anywhere from £1m to £10m for each slot.

BA said calculations on fair market value would have to take into account how much the airline had invested in the staff, ground facilities and aircraft to run the routes associated with the slots.

The value would also have to take into account whether or not they were used for flights during peak times of the day and week. Value would also be ascribed to the transatlantic route for which the acquiring airline would want to use the slot.

However, competitors argued this was investment in routes, not slots, and that BA and American should not be allowed to sell the routes. "We think in theory that the buying and selling of routes should be allowed," said United. "But we do not think BA should be allowed to sell these slots nor should they be allowed to decide who they should go to. That is the job of the US and UK governments."

The DTI, however, indicated it did not oppose a slot auction. Furthermore, it is understood the carriers do not have to surrender transatlantic slots, but will be permitted to sell off unprofitable or lower yielding slots to competitors, who would then be required to turn them into slots used for transatlantic routes.

This has concerned some parties served by non-transatlantic flights. Yesterday conservative MPs in the south-west of England warned that BA's regional flights to Plymouth and Newquay could be among those lost.

The MPs are urging Mr Lang to "ring fence" the slots at Heathrow for west country air services, currently operated by the BA subsidiary, Brymon. Such concerns could make the outcome of the lobbying especially unpredictable.

COMPANIES AND FINANCE

Sparks fly over Stadshypotek merger plan

When two of Stadshypotek's executives arrived at the Swedish finance ministry in Stockholm to present their bank's planned merger with Skandia, the reception was not as they expected.

The two were ordered to wait in a side-room while Mr Gösta Renell, Stadshypotek chairman, was taken in alone to meet Mr Peter Lagerblad, under-secretary. The executives were denied an audience, and their specially prepared binders containing key information about the deal remained unopened.

The encounter, a fortnight before the merger proposal's launch, illustrated the finance ministry's extreme reluctance to discuss the tie-up – a reluctance which boiled into anger once the deal was announced. Government accusations and Stadshypotek's ripostes have turned it into Sweden's most acrimonious takeover bid since the abortive merger between Volvo and Renault three years ago.

Mr Erik Asbrink, finance minister, made two principal accusations: that Stadshypotek directors had gone behind his back in negotiating with Skandia, and that they were supporting the deal merely to secure plum jobs in the new corporation. He repeatedly stated he had no confidence in the board.

The government was informed of Skandia's approach two weeks before the deal was announced. Mr Renell telephoned Mr Asbrink to request an urgent meeting. Mr Asbrink said he had no time. When Mr Renell revealed Skandia's proposal, and that Stadshypotek was in favour, Mr Asbrink ordered him to call the deal off. It was a shareholder matter, the finance minister insisted.

For the government, the timing was awkward. It planned to auction its 34 per cent stake in Stadshypotek to the highest bidder and was determined not to jeopardise that process. Mr Lagerblad confirmed yesterday that the government met Stadshypotek several times before the merger was unveiled, but felt "it would not have been fair to other competitors to discuss it".

Stadshypotek and adviser Kleinwort Benson, the London investment bank, believed procrastination could torpedo Skandia's interest. After Mr Renell's meeting with Mr Lagerblad, Stadshypotek wrote to the finance ministry stating its case. The letter, stamped

Erik Asbrink, finance minister: no confidence in the board

"secret" on arrival to keep it out of the public domain, elicited no response.

Four days before the merger announcement, Mr Bertil Aberg, Stadshypotek managing director, and Mr Christer Bergquist, deputy managing director, were called to a meeting at the ministry with Mr Renell.

The trio did not meet Mr Asbrink or Mr Lagerblad, but several officials. It proved a one-way discussion. The officials repeated demands that the deal be called off, suggesting the government would sue the Stadshypotek board if it went ahead. The atmosphere, said one of those present, was "threatening".

Mr Aberg and Mr Bergquist had prepared new information binders and tried to persuade the officials to read them. They refused. When it became clear Stadshypotek was determined to proceed, they were urged to delay an announcement until after the government auction. The request was rejected.

Through his stinging comments, Mr Asbrink might seem to have painted himself into a corner. Yet he may still have to endorse Skandia's proposal should it emerge as the highest offer.

Analysts predict that Stadshypotek's shareholders are unlikely to get a better deal, but some Swedish banks, the likeliest suitors for the state's holding, are believed to have strong reservations about the price of SKr7bn–SKr8bn ($1.03bn–$1.18bn).

Skandia's offer values Stadshypotek at some SKr21bn. Nordbanken, the partly state-owned bank linked most closely with Stadshypotek, has already said it regards this as a ceiling rather than a floor.

Greg McIvor

Swiss Re likely to beat forecasts

By William Hall in Zurich

Swiss Re, the world's second-biggest reinsurance company, expects after-tax profits for 1996 to increase by "significantly more" than 20 per cent, implying a figure close to SFr1.4bn ($1.1bn).

In 1995, the company earned SFr1.1bn and many Swiss analysts had been forecasting that its profits would rise by less than 20 per cent in the current year, after increases of 29 per cent and 54 per cent in 1994 and 1995, respectively.

If the company meets its forecast, it could come close to achieving its medium-term target of a 15 per cent return on equity in 1996, compared with 12.7 per cent last year. This year's figure will be inflated by the need to write off goodwill on the SFr3.2bn acquisition of Mercantile & General Re, a UK reinsurer, earlier this year.

Nevertheless, analysts are impressed by the company's commitment to a target return on equity that is four times the risk-free return on Swiss government bonds.

The improvement owes a lot to the reshaping of the business under Mr Lukas Mühlemann, 46, the outgoing chief executive, and a benign business environment. Strong financial markets have boosted returns on the group's SFr41.7bn investment portfolio, and the continued absence of large-scale natural catastrophes and big individual claims, has led to an improvement in the underwriting result.

The profit forecast excludes any contribution from M&G Re. Swiss Re says that because of the nature of the reinsurance business it is "very difficult" to make a precise forecast of its operating result. However, it expects a "positive contribution" to the overall group.

The strong performance of Swiss Re's profits contrasts with the relative stagnation of its premium growth. It anticipates a slight fall in premium development in 1996. However, currency movements mean premiums will probably rise by about 2 per cent to SFr13bn. By contrast, investment returns in the first 10 months of 1996 exceeded the SFr2.6bn achieved in all of 1995.

NEWS DIGEST

Colonial Mutual listing approved

Colonial Mutual, the Australian-based life office which also has a large number of policyholders in the UK and New Zealand, has received formal approval from the Supreme Court of Victoria to list its shares on the Australian and New Zealand stock exchanges in the first half of 1997. The plan has already been approved by members in Australia and abroad.

Colonial's 700,000-plus members will receive at least 225 shares and options each, and more than half are due to receive in excess of 1,000 shares each. As of September, each share and option parcel was valued at A$2.57.

Nikki Tait, Sydney

Setback for James Hardie

James Hardie, the Australian building materials group, saw after-tax profits tumble 36.1 per cent to A$14.7m (US$11.7m) in the six months to end-September, and warned that the immediate outlook for its Australian operations was bleak. The result was struck after an abnormal charge of A$13.1m, compared with an A$8.4m charge last year. Earnings before interest and tax were down a more modest 7.8 per cent at A$47.4m, while sales rose 2.7 per cent to A$918.9m.

While Australian operations suffered from depressed market conditions, the US fibre cement and gypsum businesses continued to perform ahead of expectations. The US unit more than doubled profits to A$39m, on sales up 20.1 per cent to A$239.3m.

Nikki Tait

Sket may find buyer in Iran

Sket, the troubled east German engineering company, could be saved by an Iranian buyer following a meeting between Mr Hossein Mahludji, the Iranian minister for mining and metallurgy, and Mr Klaus Schucht, the economics minister of Sachsen-Anhalt, where it is located.

Mr Mahludji agreed to provide the names of Iranian companies that could make a bid. Sket, which under communism was a show-case company employing 30,000, is implementing a restructuring plan that will cut its workforce from 1,500 to 425 and split the company into five units. The company's owner, the BvS privatisation agency, has agreed to provide DM200m ($130m) for the restructuring.

Frederick Stüdemann, Berlin

Manila puts price on IBC

The auction of the Philippine state-run International Broadcasting Corporation (IBC) due at the end of the month has had a minimum price set of 2bn pesos ($76m). Fourteen bidders, including Manila Broadcasting Company and MD Bondoc and Company, have expressed interest in acquiring the television station. Those reaching the pre-qualification stage will be announced on December 9.

Justin Marozzi, Manila

FT/S&P World Indices

The committee which oversees the FT/S&P-Actuaries World Indices has agreed at its quarterly meeting to add 34 US constituents. It has added four constituents and deleted two in Sweden; added five and deleted three in Denmark; added seven and deleted one in Norway; and added seven and deleted three in Finland. The changes take effect from January 1. *Further details are available from FTSE International in London, phone 0171 448 1800, or on its web-site:http://www.ftse.com*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.69	11.67	11.67
0100	17.70	16.50	18.28
0130	17.70	16.50	18.28
0200	[illegible]	16.50	18.28
0230	17.70	16.50	18.28
0300	17.70	16.50	18.28
0330	17.41	12.16	13.94
0400	16.05	11.75	13.53
0430	[illegible]	11.68	11.68
0500	11.66	11.65	11.65
0530	11.65	11.63	[illegible]
0600	11.65	[illegible]	11.61
[illegible]	11.65	11.63	[illegible]
0700	[illegible]	11.63	11.63
0730	11.65	[illegible]	11.63
0800	[illegible]	11.63	11.63
0830	11.64	[illegible]	11.64
0900	11.65	11.66	11.66
0930	[illegible]	11.67	13.45
1000	11.69	[illegible]	13.51
1030	11.69	16.60	18.38
1100	15.32	16.60	18.38
1130	17.61	16.60	18.38
1200	21.00	16.60	18.38
1230	21.00	16.60	18.38
1300	21.00	16.60	18.38
[illegible]	17.61	16.60	18.38
1400	15.76	16.57	18.36
1430	11.71	[illegible]	11.69
1500	[illegible]	11.69	[illegible]
1530	15.76	11.68	11.68
1600	[illegible]	11.68	11.68
1630	17.43	11.79	11.79
1700	18.72	19.31	21.09
[illegible]	18.72	21.26	23.04
1800	24.60	26.21	27.99
1830	24.60	21.26	23.04
1900	19.72	21.26	23.04
1930	17.45	19.52	21.30
2000	17.43	19.31	21.09
2030	16.86	19.22	21.01
2100	16.49	18.40	20.18
2130	15.60	16.93	18.72
2200	15.32	16.93	18.72
2230	[illegible]	[illegible]	18.10
2300	11.68	12.34	14.12
2330	11.67	11.67	13.45
2400	11.68	11.66	[illegible]

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8:30am and 5:15pm Monday to Friday.
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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 08.12.96: Pool purchase price £/MWh	Final Prices for Trading on 11.11.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.70	11.66	11.66
0100	11.69	11.67	11.67
0130	23.17	12.24	13.10
0200	23.17	11.67	12.53
0230	23.17	12.24	13.10
0300	15.67	11.67	12.53
0330	16.07	11.67	11.67
0400	11.71	11.66	11.66
0430	11.69	11.67	11.67
0500	11.69	11.67	11.67
0530	[illegible]	11.68	12.54
0600	11.63	11.68	12.54
0630	[illegible]	11.68	11.68
0700	14.80	12.89	13.75
0730	20.83	19.47	20.33
0800	[illegible]	50.70	51.56
0830	[illegible]	50.70	51.56
0900	21.10	19.48	20.35
0930	[illegible]	19.50	20.36
1000	36.62	57.89	58.76
1030	36.83	57.90	58.79
1100	28.22	19.58	20.45
1130	28.18	19.58	20.46
1200	28.18	19.60	20.50
1230	28.14	19.58	20.48
1300	28.12	19.55	20.44
1330	28.04	19.51	20.39
1400	23.27	17.80	18.68
1430	23.24	17.81	18.68
1500	28.29	17.82	18.70
1530	28.50	19.37	20.26
1600	35.39	20.39	21.60
1630	95.94	38.02	41.23
1700	154.02	68.43	75.72
1730	164.41	78.74	88.93
1800	127.25	66.27	73.48
1830	63.66	34.62	37.79
1900	38.44	23.93	25.33
1930	29.65	22.33	23.43
2000	26.33	21.70	22.64
2030	20.96	21.49	22.36
2100	17.72	21.47	22.33
2130	17.71	21.46	22.33
2200	17.71	20.77	21.84
2230	13.72	20.77	21.64
2300	11.74	19.11	19.87
2330	11.72	17.50	18.36
2400	11.71	16.49	17.35

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8:30am and 5:15pm Monday to Friday.
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COMPANIES AND FINANCE

France looks at relaunching CIC sale

By Andrew Jack in Paris

The French government is considering relaunching the privatisation of CIC, the state-owned banking network, in spite of the difficulties which caused the sale to be pulled last month.

Ministers are believed to be determined to push ahead with a sale of CIC on its own, rather than pursuing the alternative of selling it jointly with its parent company, the troubled state-owned GAN insurance group.

The move comes in spite of a ruling from the independent privatisation commission that one of the two candidates to acquire CIC was unacceptable, and a second embarrassing judgment last week blocking the government's preferred candidate for the sell-off of Thomson, the electronics and defence group.

It also risks triggering the need for a substantial state recapitalisation of GAN, since the sale of CIC for anything less than the FFr14.5bn ($2.8bn) at which it is held in the insurer's accounts would mean a capital loss.

Government officials are considering the sale of parts of CIC, France's fifth-largest commercial bank. It has a network of 11 regional entities, some of which are more profitable or tempting to potential acquirers than others.

However, the move could threaten the strong identity of CIC and the important commercial links between its regional members, as well as jeopardising its partnership with GAN for the sale of life assurance, an arrangement which had to be preserved under the conditions of the sell-off until now.

Separately, some executives in CIC are pushing for other ways of saving the bank, revising plans discussed in the past for a public share offering, either at the national level or through its regional operations.

Some are also considering the idea of offering minority participations linked to strategic alliances between regional CIC banks and suitable financial institutions from other European countries.

The discussions come at a time of intense uncertainty over the future of CIC, after the controversial privatisation process triggered widespread protests from employees and powerful local politicians, who see the bank as an essential component in regional economic development.

It led to the sacking by the government last month of Mr Jean-Jacques Bonnaud, head of GAN, and the prospect of the imminent replacement of Mr Bernard Yoncourt, head of CIC. Both men had publicly criticised the candidates to acquire the bank, Société Générale and Banque Nationale de Paris.

Mr Didier Pfeiffer, deputy chairman of UAP, the French insurer subject to a takeover by its rival AXA, was on Wednesday formally appointed by the government as Mr Bonnaud's replacement.

He is believed to have told the GAN board last week that Mr Philippe Pontet, head of state holding company Erap and former head of the recently-privatised Compagnie Générale Maritime shipping group, would be a good candidate to replace Mr Yoncourt.

Veba raises investment targets

By Wolfgang Münchau in Essen

Veba, the German energy and telecommunications group, plans to invest DM32.3bn ($21bn) between 1997 and 2001, an increase of almost DM4bn on the company's previous five-year projection for 1996–2000.

The lion's share of the increased investments will go into the chemical sector, where Veba plans to invest about DM9.69bn in the 1997–2001 period, compared with projections of DM6bn for 1996–2000 a year ago.

Veba says it will invest about DM12.4bn, or around 38 per cent of the total, outside Germany, a proportion that is twice as high as planned. About 41 per cent of the foreign investments are earmarked for Europe, and 20 per cent each for North America and Asia.

Veba released the projections with its nine-months results, which showed a 25.2 per cent rise in net profits from DM980m to DM1.23bn for the period to end-September. Pre-tax profits were up 14.7 per cent at DM2.51bn.

Sales rose 4 per cent to DM55.3bn, with the largest increase coming in the oil division, where turnover was up 9.7 per cent at DM12.9bn.

Veba did not release a divisional breakdown, but said oil recorded a small increase in operating profits, made up of a strong performance in upstream activities and mineral oil offset by an "extremely dissatisfying" performance by the refinery business. It said the electricity division performed well because of higher exports, an increase in weather-related demand and greater efficiencies.

Mr Ulrich Hartmann, chairman, said the telecoms division – which counts as one of the main challengers to Deutsche Telekom – is expected to be profitable in five years. That calculation does not take account of the decision by RWE, Veba's arch-rival in the energy sector, to join Veba's telecoms consortium with Cable and Wireless, the UK group. The three companies are still working on details of the contract, and expect to sign the formal agreement in the next few weeks.

Mr Hartmann said E-Plus, the mobile communications unit in which Veba has a 30.1 per cent stake, would make a profit in 1998-99.

He also criticised the government for its tardiness in setting up a telecoms regulator. "The development of a telecommunications market depends crucially on an active and independent regulator who is dedicated to market openness. It is regrettable that the shape, structure and staffing of this regulatory authority remains vague even a year before market liberalisation. I have the impression that this is being pursued half-heartedly," he said.

Ulrich Hartmann: attacked government on regulation

Tractebel threatens Hungarian withdrawal

By Virginia Marsh in Budapest

Tractebel, the Belgian utility, is threatening to pull out of a large power generation project in Hungary. It may also take legal action against the authorities for not honouring commitments made when the sector's privatisation began last year.

The move indicates growing discontent among western utilities, which have invested some $3bn in Hungarian gas and electricity companies. Investors have been angered by the government's failure to establish a long-term tariff and regulatory framework for the sector and at delays in promised price rises. They say that recent price increases are not sufficient.

"If it is confirmed [that the rises are not enough], we are ready to ask for cancellation of the privatisation and for our money back. We are preparing legal action . . . The new prices appear to be completely unacceptable," a Tractebel official said.

Through its Powerfin unit, Tractebel, majority-owned by Société Générale de Belgique, the holding group, paid $141m for 48.8 per cent of the Dunamenti power plant last year. After the state declined to reinvest 1995 dividends in the company, it lifted its stake to 50.8 per cent by acquiring employees' shares. Other investors in the sector include RWE and Bayernwerk of Germany, AES of the US and the UK's PowerGen.

Two weeks ago, the government said consumer gas prices would rise by 18.8 per cent and electricity by 24.9 per cent from January. At the time of privatisation it promised increases in October and that, from next year, prices would be cost-reflective and would enable investors to make an 8 per cent return.

It has yet to announce how the increases will be divided between generation and distribution companies, but investors, especially in power plants, say they expect further losses.

Tractebel has been among the hardest hit. Within days of buying Dunamenti, it faced a fuel price rise of more than 40 per cent from Mol, the mainly state-owned quasi-monopoly supplier. Prices rose again in October, but Dunamenti has been limited to an increase of just 18 per cent for its electricity charges.

CAW backs Canadian Airlines rescue plan

By Robert Gibbens in Montreal

Canadian Auto Workers Union negotiators have backed a restructuring plan for Canadian Airlines International, allowing the troubled Calgary-based carrier to continue flying. CAI had warned it would have to seek protection from creditors if the plan was not given the go-ahead.

Mr Buzz Hargrove, president of the CAW, said: "I'm recommending this not because it is just, but after five weeks of fighting we are all tired."

Staff will vote next week whether to accept pay cuts averaging 3.7 per cent, and a federal government promise to study the problems of Canada's airline industry. The government has dropped its demand for a secret ballot.

CAI's crisis began six weeks ago when Mr Kevin Benson, president, warned it would run out of cash in January because of heavy debts, unless it restructured for the second time.

He demanded a 10 per cent pay cut from all 16,400 employees, which was later softened to a sliding scale of cuts averaging about 5 per cent, after the federal government and the provinces of Alberta and British Columbia offered support in the form of fuel-tax rebates.

The plan also included cuts in service fees from American Airlines, which has a 33 per cent equity stake, and other suppliers, and an extension in loan and aircraft lease payments.

Five out of the six of the airline's unions agreed to the rescue package, but the CAW held out last week for a better deal.

CAI will also drop loss-making domestic routes and build up trans-border traffic with the US, and its profitable Asian routes.

The restructuring will provide CAI with more than C$200m (US$147m) cash, giving it space to work out details of the revamp.

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All of these securities having been sold, this announcement appears as a matter of record only.

November 5, 1996

US$5,851,686,930

Eni

1,265,000,000 Shares
(nominal value Lit. 1,000 per Share)

Joint Global Coordinators

Istituto Mobiliare Italiano | CS First Boston

These securities were offered in Italy, the United States and internationally.

Italian Public Offering
700,000,000 Shares

Istituto Mobiliare Italiano

Banca Commerciale Italiana | Istituto Bancario San Paolo di Torino | Banca di Roma S.p.A. (Gruppo Cassa di Risparmio di Roma)

Banca Monte dei Paschi di Siena S.p.A. | Banca Nazionale del Lavoro S.p.A. | CARIPLO S.p.A. | Credito Italiano

Italian Institutional Offering
128,750,000 Shares

Istituto Mobiliare Italiano

Banca Commerciale Italiana | Istituto Bancario San Paolo di Torino | Banca di Roma S.p.A. (Gruppo Cassa di Risparmio di Roma)

Banca Monte dei Paschi di Siena S.p.A. | Banca Nazionale del Lavoro S.p.A. | CARIPLO S.p.A. | Credito Italiano

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CS First Boston | Euromobiliare S.I.M. S.p.A. | Giubergia Warburg Sim | RASFIN SIM S.p.A.

United States Offering
16,675,000 American Depositary Shares
representing 166,750,000 Shares

CS First Boston

Goldman, Sachs & Co.

Lehman Brothers | J.P. Morgan & Co. | Smith Barney Inc.

ABN AMRO Rothschild (A Division of ABN AMRO Securities (USA) Inc.) | RBC Dominion Securities Corporation

Deutsche Morgan Grenfell | Donaldson, Lufkin & Jenrette (Securities Corporation) | A.G. Edwards & Sons, Inc. | Fahnestock & Co. Inc.

Howard, Weil, Labouisse, Friedrichs (Incorporated) | Morgan Stanley & Co. (Incorporated) | PaineWebber Incorporated

Petrie Parkman & Co. | Rodman & Renshaw, Inc. | Schroder Wertheim & Co.

United Kingdom and the Republic of Ireland
140,750,000 Shares

SBC Warburg
A Division of Swiss Bank Corporation

CS First Boston | Istituto Mobiliare Italiano | ABN AMRO Rothschild | NatWest Securities Limited

Cazenove & Co. | Istituto Bancario San Paolo di Torino | Schroders

Rest of the World
128,750,000 Shares

Morgan Stanley & Co.
International

CS First Boston | Istituto Mobiliare Italiano | ABN AMRO Rothschild

Deutsche Morgan Grenfell | Nomura International | Paribas Capital Markets

Indosuez Capital | BBV Interactivos, SVB | Creditanstalt Investment Bank AG | Daiwa Europe Limited | Robert Fleming & Co. Ltd.

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Philip Coggan

A Canadian portal to the US?

The dramatic falls in world markets on Friday will have come as some comfort to bears such as PDFM, the fund management arm of UBS, who have been warning that markets have been overvalued for some time.

Albert Edwards, global strategist at Kleinwort Benson, was a relatively recent convert to the bearish camp, calling for a sharp fall in the US market in late September. He returned to the fray last week with a hard-hitting note, claming US profits were a sham and that "instead of viewing share buy-backs as a tax-efficient way of returning excess cash to investors, we believe US management are engaged in risk-taking on a massive scale."

Edwards argues that the improvement in return on equity achieved by US companies is an illusion, compared with return on capital employed, which uses both debt and equity. This has barely improved. He believes management has a selfish motive for pursuing the buy-back strategy. "With management remuneration closely linked to share price performance, the more the free float shrinks and the higher the leverage, the richer the management become while profits expand. The problem, as we saw in 1990-91, is that even a relatively minor downturn in sales can cause a profit collapse and an explosion in corporate bankruptcy."

The other argument which could pose a threat comes from the private sector. It is difficult to square the circle of high mutual fund inflows, high consumer borrowing and a low US savings rate. One answer is that US investors are substituting mutual funds for direct equity holdings; but another might be that investors, while not borrowing directly to invest in mutual funds, are feeling so wealthy on the back of the rise in their fund portfolios that they are borrowing elsewhere to buy consumer goods. If US rates start to rise, this process might unravel.

Non-US investors have largely missed out on Wall Street's phenomenal rise. As the Dow powered through the 4,000, 5,000 and 6,000 levels, overseas funds kept hoping for a correction that would allow them to get back into the market without losing face. Friday's drop may present an opportunity but Anthony McGarel Groves, associate director of Hambros Fund Management, thinks there is a way for them to get into America by the back door – via Canada.

The Canadian economy has been transformed in the last few years. Inflation, which was 5.6 per cent in 1991, dropped to 0.2 per cent in 1994 and is still under 2 per cent. Unit labour costs have grown more slowly than in any G7 country over the past six years. Allied to a weak currency, this has triggered an export boom, allowing a rise from 28 per cent of GDP in 1990 to 42 per cent in 1995, and the current account, heavily in deficit in 1990, to move into surplus.

Low inflation has allowed the Bank of Canada to cut interest rates – three month Libor dropped from 8.5 per cent in February 1995 to 3 per cent. The yield curve is below that of the US all the way out to bonds with 10 year maturities.

Not all of Canada's problems have been solved, however. Debt remains high, if provincial and federal borrowing are added. But, under finance minister Paul Martin, the federal fiscal deficit has dropped from 5.9 per cent in 1994 to 4 per cent in 1996 (the target for 1999 is 1 per cent); the provinces, including Quebec, are also attacking their deficits. Canadian bonds, although suffering a setback in recent weeks, have still seen yields decline from 9.65 per cent in January 1995 to 6.5 per cent.

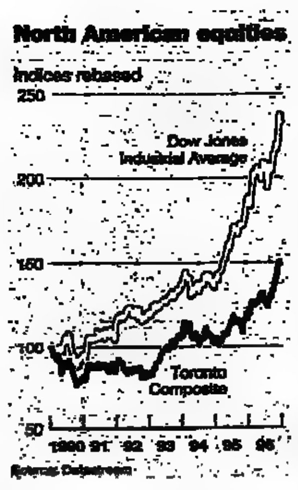
"A lot of the things that make the US attractive are happening in Canada" says McGarel Groves "and 60-70 per cent of Canada's exports go to the US."

The problem, according to John Embury, head of equities at the Royal Bank of Canada in Toronto, is that "Canada's economic position has been enhanced, but the news has been discovered by the market." The Toronto Stock Exchange had risen 25.4 per cent by Thursday night and the p/e has climbed from 14 at the start of the year to 24.

But two things might still make the Canadian market worthwhile. The first, says Embury, is that a lot of savings are tied up in low-yielding deposits and investors might decide to switch into the stock market to aim for a better return; the second, shown in the graph, is that the market has underperformed the US by more than 40 per cent since 1990.

Even if the US starts to fall, therefore, the Canadian market might offer the chance to outperform. And, investors might remember, Canada has a higher weight in the world index than Germany.

North American equities



Source: Datastream

Total return in local currency to 05/12/96

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.11	0.01	0.06	0.06	0.15	0.11
Month	0.45	0.04	0.26	0.28	0.65	0.52
Year	5.94	0.48	4.19	6.60	10.56	6.74
Bonds 3-5 year						
Week	−0.10	0.34	0.19	0.68	0.63	−0.32
Month	0.66	0.26	0.81	1.16	1.99	0.31
Year	4.81	3.52	7.00	11.58	23.97	5.91
Bonds 7-10 year						
Week	−0.41	0.87	0.25	0.70	1.17	−0.21
Month	0.84	0.64	1.46	1.83	3.50	1.07
Year	3.02	7.38	8.40	14.96	35.42	6.90
Equities						
Week	−1.3	−0.1	3.6	0.4	1.8	0.2
Month	4.4	0.5	7.5	4.8	6.3	3.3
Year	22.6	4.5	29.0	32.7	19.8	15.1

Source: Cash & Bonds - Lehman Brothers, Equities-© FT/Excel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE

Compass poised for sharp advance

Compass, the rapidly expanding contract catering group, is expected to report tomorrow a rise of more than 50 per cent in profits for the year to October 1 to £113m ($185m), excluding exceptionals.

The City Of London will be looking for improvements in margins, particularly in the US, and for progress reports on the integration of acquisitions, including Service America (August) and Professional Food-Service Management (July). The results will also include the first full year of Eurest International.

■ **Yorkshire Electricity** is expected to announce tomorrow a large rise in interim dividends, possibly in excess of 50 per cent, to about 15.75p. Pre-tax profits are expected to be down from £111m to some £85m ($139m) as the second distribution review and higher interest charges take their toll.

■ **London Electricity** is expected to unveil on Thursday lower pre-tax profits but higher dividends. Profits of between £60m and £65m ($107m) are predicted – reflecting the effects of the second distribution review and higher interest charges. Analysts expect interim dividends of about 14p – up more than 20 per cent.

■ **Scottish Hydro-Electric** is expected to deliver flat to slightly better pre-tax profits of £60m to £65m ($107m) on Thursday. Dividends of 5.2p are expected – up 9 per cent – and so too is a company clarification on strategy in the wake of its failure to buy British Gas's gas supply business in Scotland.

■ **NFC**, the restructuring transport and logistics group, is expected to report on Wednesday pre-tax profits up from £38.6m to about £105m ($172m) for the year to September 30, giving earnings of 9.4p. The group, which began its restructuring programme when Mr Gerry Murphy joined as chief executive in June 1995, is expected to show further evidence that the process is beginning to pay off. It showed encouraging signs at the interim stage when it exceeded forecasts, but analysts will be looking for recovery in Europe and further growth in the US. An unchanged total dividend of 7.1p is expected.

Compass Group

Airtours

■ **Greenalls Group**, one of the UK's largest independent pub chains, is expected to report on Thursday profits before tax and exceptionals of £145m ($238m) for the year to September. The 45 per cent rise is thanks to the first contribution from its acquisition of Boddington Group. Net exceptionals, largely merger costs, will knock the FRS 3 pre-tax profit down to about £118m.

Underlying profits growth from its managed pubs, however, will be about 11 per cent – some four or five percentage points below its peers. Similarly normalised earnings per share growth at 8 per cent is well below the competition. Investors will be keen to hear from management their plans for perking up performance.

■ Analysts expect interim profits of about £30m ($49m) at **British Land**, the property company which is busy digesting several recent acquisitions including the Broadgate complex. What Mr John Ritblat, chairman, makes of the recovery which the property sector is edging towards will be of particular interest when he announces the results tomorrow. An interim dividend of 2.9p is forecast, up 5 per cent.

■ Interim pre-tax profits of about £54m ($89m) are expected on Wednesday from **David S Smith**, the paper, packaging and office products group, down from £60m last year. The company is the UK's biggest processor of waste paper and analysts will be wanting to know more about the prospects that sector. They will also be looking for the benefits derived from its investment in the UK packaging division. Earnings per share are expected to be about 12.5p while the interim dividend forecast is 2.6p (2.45p).

■ On Wednesday, **Airtours**, the UK's second largest package holiday company, is expected to report much improved pre-tax profits up from £59.1m to between £80m and £85m ($139.0m) for the year to the end of September. The improvement is expected on the back of a much stronger UK market where fewer holidays and higher prices have produced better margins than last year. The market will be interested in how bookings for next summer are doing and in comments about the investigation by the Monopolies and Mergers Commission of the travel industry, following concerns about anti-competitive behaviour.

■ **Chubb Security**, the electronic alarms and locks group which reports interims tomorrow, is expected to deliver pre-tax profits of £46m ($75m) for the six months to the end of September. That would generate earnings per share of 10p. Analysts will be scrutinising the underlying growth line excluding acquisitions, and will want to hear more about the fire protection and building Security businesses acquired last month from James Hardie, the Australian building materials group, for A$220m (£108m). There may be some concern about the impact of currency movements in the second half because of the group's high exposure to overseas markets.

INTERNATIONAL EQUITIES By Joel Kibazo

Ringing the changes in Ghana

While uncertainity remains following Ghana's inconclusive presidential elections on Saturday, few expect that outcome to affect the country's biggest international transaction for nearly three years.

In the biggest sale since it reduced its holding in Asanti Goldfields in 1994, the government is selling a 30 per cent stake in Ghana Telecom, a move analysts say will raise about $100m.

The deal, which closes on Friday, is expected to transform a poorly managed and underfunded utility. In a separate but related deal, the government also decided to end GT's monopoly as the only provider of fixed-line telephones and is offering a nationwide second national operator (SNO) licence to a rival. It would not say how much that sale was expected to raise.

While the country's economy has grown by an average 4.7 per cent a year since 1985 and its population by about 3.1 per cent a year to its present 17m, the number of available telephone lines has remained practically stagnant. According to figures from the Ministry of Transport and Telecommunications, at the end of 1995 the telephone penetration rate was only 0.37 lines per 100 inhabitants. This not only created a backlog of over 300,000 people waiting to be connected but has also led to a thriving black market in lines.

With World Bank support, the government not only decided on the sale of 30 per cent of GT to a strategic investor but to also cede management control. Mr Edward Salia, minister of transportation and communications, said: "We are only selling 30 per cent at the moment but I can see a time when the government will only have a minority stake."

The short list for the role of financial adviser to the government included Morgan Stanley, Lehman Brothers, Merrill Lynch, Samuel Montagu and Deutsche Morgan Grenfell, but it was CS First Boston that won the mandate. The US investment banking arm of Credit Suisse has advised other governments on the sale of strategic telecom stakes and public offerings, including those of Germany, Greece and Portugal.

The government decided the sale would be conducted under the single round, sealed-bid auction process. After meeting the technical threshold, bidders are required to submit a sealed envelope with a price they are willing to pay for either the 30 per cent of GT or for the SNO licence.

The winners also have an obligation to contribute to the the telecoms infrastructure; the strategic investor will assume a commitment of a roll out programme of 225,000 lines over the next five years; the SNO licence operator will be required to roll out 50,000 lines within three years.

These seemingly tough criteria have done little to damp enthusiasm for the sale. The list of prospective buyers includes Deutsche Telekom, Telekom Malaysia, KPN of the Netherlands, Western Wireless and Lightcom, both from the US, Telia of Sweden and Telkom of South Africa.

All have been asked to incorporate Ghanaian registered companies as the bidding vehicle and they have also been encouraged to consider having Ghanaian shareholders. Market sources suggest KPN will win the strategic stake, while Deutsche Telekom, Lightcom and Western Wireless are main contenders for the SNO licence.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	FRIDAY DECEMBER 6 1996: US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY DECEMBER 5 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (77)	211.98	11.6	191.45	151.03	169.76	176.93	4.1	4.31	219.16	199.63	155.91	177.14	182.57	224.61	186.70	188.57
Austria (24)	183.87	5.3	166.04	131.00	147.25	147.15	10.4	1.94	185.79	169.23	132.16	150.16	150.06	195.04	168.36	171.21
Belgium (27)	225.21	7.7	203.38	160.45	180.36	178.31	16.1	3.78	225.88	205.75	160.68	182.57	178.51	229.11	199.91	199.91
Brazil (28)	184.79	34.0	166.88	131.58	147.99	351.92	42.6	1.74	186.70	170.07	132.82	150.91	355.59	189.70	131.21	139.22
Canada (116)	186.98	26.0	168.85	133.22	149.74	184.19	25.6	1.96	188.09	171.33	133.80	152.03	185.08	196.24	144.35	149.22
Denmark (30)	334.47	15.8	302.04	238.29	267.85	283.44	23.3	1.72	336.89	306.86	239.68	272.30	272.88	340.41	261.10	288.13
Finland (24)	243.66	30.2	220.04	173.60	195.13	235.62	38.2	2.13	241.42	219.91	171.74	195.13	235.62	243.66	171.73	213.07
France (93)	207.28	15.5	187.18	147.67	165.99	169.00	22.8	2.89	209.64	190.96	149.13	169.44	172.72	212.49	171.33	173.89
Germany (59)	184.09	12.5	166.24	131.15	147.42	147.42	21.0	1.65	189.86	172.94	135.06	153.46	153.46	189.86	161.25	161.86
Hong Kong (59)	498.15	28.5	449.85	354.91	398.94	494.51	28.5	2.15	513.16	467.45	365.06	414.78	509.42	513.16	372.58	379.49
Indonesia (27)	226.89	–	204.88	161.64	181.69	327.22	–	1.88	230.11	209.60	163.69	185.99	331.45	–	–	–
Ireland (16)	310.26	21.4	280.17	221.04	248.46	265.01	18.0	3.45	314.34	286.34	223.62	254.07	270.89	321.16	250.17	257.48
Italy (58)	80.92	9.8	73.08	57.65	64.81	91.97	5.3	2.26	82.10	74.78	58.40	66.36	94.00	84.53	68.49	68.43
Japan (480)	136.54	−11.9	123.30	97.28	109.34	97.28	−3.7	0.79	140.13	127.64	99.69	113.26	99.66	164.66	136.54	150.80
Malaysia (107)	583.59	20.3	527.01	415.78	467.36	586.35	19.4	1.10	599.76	546.32	426.66	484.77	582.32	607.65	475.66	485.59
Mexico (27)	1197.37	15.6	1081.28	853.07	958.90	10380.86	19.0	1.06	1218.90	1110.29	867.10	985.20	10511.53	1325.66	938.49	987.70
Netherland (19)	318.81	16.9	287.90	227.14	255.31	251.37	26.0	2.94	321.43	292.79	228.66	259.80	255.83	326.12	265.24	266.43
New Zealand (15)	91.87	15.3	82.96	65.45	73.57	69.32	7.2	3.98	93.30	84.99	66.37	75.41	70.43	94.40	75.94	77.76
Norway (35)	280.95	21.5	253.71	200.16	224.99	245.55	23.9	2.06	284.51	259.16	202.40	229.96	251.20	285.28	222.24	226.50
Philippines (22)	201.77	–	182.20	143.75	161.58	264.45	–	0.63	203.02	184.93	144.42	164.09	266.04	–	–	–
Singapore (43)	412.05	1.2	372.09	293.56	329.98	265.74	0.1	1.02	420.05	382.62	298.81	339.51	271.29	465.21	371.28	389.59
South Africa (44)	318.48	−17.4	287.60	226.90	255.05	324.86	5.7	2.41	325.06	296.10	231.24	262.74	331.80	437.76	314.20	382.55
Spain (37)	201.69	22.1	182.13	143.69	161.52	198.28	30.6	3.02	200.23	182.39	142.44	161.84	198.28	201.69	157.91	158.77
Sweden (48)	410.76	31.6	370.93	292.64	328.95	412.75	34.8	2.07	415.16	378.15	295.33	335.56	418.64	416.67	294.19	317.44
Switzerland (37)	238.95	1.3	215.78	170.24	191.36	193.50	14.9	1.53	241.80	220.25	172.01	195.43	197.48	254.34	219.29	229.80
Thailand (45)	107.33	−36.2	96.93	76.47	85.96	106.43	−35.3	3.22	108.89	99.19	77.46	88.01	108.04	193.95	107.33	166.06
United Kingdom (213)	261.60	13.5	236.24	186.38	209.50	236.24	7.3	4.02	264.97	241.36	188.49	214.17	241.36	273.93	222.43	226.83
USA (623)	300.95	19.8	271.77	214.42	241.01	300.95	19.8	2.00	302.90	275.91	215.48	244.82	302.90	307.82	243.34	253.22
Americas (794)	275.10	20.1	248.43	196.00	220.31	251.41	20.2	1.98	276.91	252.24	196.99	223.82	232.91	281.50	222.53	230.69
Europe (720)	228.07	19.5	205.95	162.49	182.64	197.02	18.0	2.93	231.11	210.52	164.41	186.80	201.39	234.56	194.31	196.87
Nordic (137)	351.99	27.6	317.86	250.78	281.88	308.57	32.0	2.02	354.66	323.06	252.30	286.66	312.73	355.21	281.13	282.56
Pacific Basin (875)	154.25	−6.7	139.29	109.89	123.52	111.11	−0.2	1.26	158.37	144.26	112.68	128.00	113.94	177.01	153.96	161.17
Euro-Pacific (1595)	184.90	2.7	166.97	131.73	148.07	143.51	7.4	2.15	188.56	171.76	134.14	152.41	146.92	191.51	175.04	175.94
North America (739)	294.08	20.1	265.57	209.52	235.51	283.27	20.1	1.99	295.98	269.60	210.55	239.23	295.14	301.15	237.55	246.80
Europe Ex. UK (507)	204.95	13.6	185.08	146.02	164.13	172.77	21.2	2.31	207.74	189.23	147.79	167.91	176.66	209.70	174.81	176.45
Pacific Ex. Japan (395)	307.68	16.3	277.85	219.21	246.40	265.13	13.7	2.81	316.31	288.12	225.01	255.66	272.49	317.82	257.81	260.52
World Ex. US (1810)	186.96	3.4	168.83	133.20	149.72	148.81	8.5	2.11	190.54	173.56	135.54	154.00	152.19	193.47	176.03	177.03
World Ex. UK (2220)	219.13	9.8	197.88	156.12	175.48	188.02	13.8	1.85	222.10	202.31	158.00	179.52	190.81	224.89	198.13	197.89
World Ex. Japan (1953)	268.14	17.0	242.14	191.04	214.74	253.06	18.2	2.36	270.86	246.81	192.75	219.00	256.43	274.98	224.52	228.28
The World Index (2493)	222.79	10.1	201.19	158.73	178.42	192.50	13.2	2.06	225.80	205.68	160.63	182.50	195.48	228.97	198.47	200.45

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Indonesia and Philippines June 28 1996 = 214.14 (US $ Index), 204.33 (Pound Sterling) and 184.40 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 6/12/96: Share weighting change: E.N.I. (28.75% to 30.8% weighting) (Italy). Deletion: Publishing and Broadcasting (Prof) (Australia). CONSTITUENT CHANGE WITH EFFECT 9/12/96: Share weighting change: Deutsche Telekom (22.9% to 25.35% weighting) (Germany). Markets closed 6/12/96: Finland and Spain. Market closed 5/12/96: Thailand.

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MARKETS: This Week

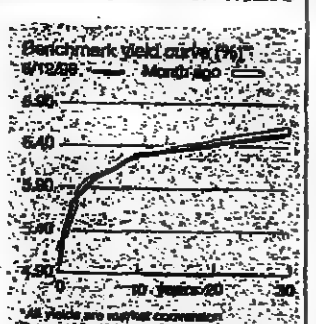
NEW YORK By Richard Waters

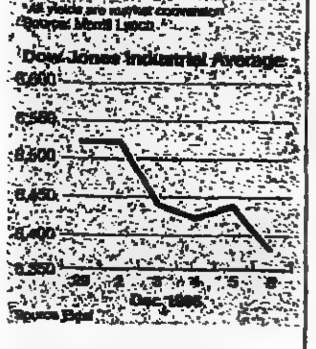
The recovery in US bond and stock markets on Friday after a heavy early sell-off may suggest that equilibrium will have returned to the markets by this morning's opening. But with Alan Greenspan's warning about unrealistically high financial asset values still ringing in their ears, it is difficult to see traders or investors rushing to push prices higher again.

The economic backdrop, at least, remains generally favourable. It was the news on Friday that employment levels in November rose far slower than expected that helped the bond market recover from its early losses. By the end of the day, the benchmark 30-year bond had returned to where it had started, with a yield of around 6.5 per cent.

But, after nudging 6.25 per cent earlier in the week, the long bond looked to have fallen back into a new trading range, with expectations that the Fed will move to lower interest rates now put on hold.

Inflation data later this week are expected to confirm the generally benign picture for the bond market. The producer prices index, due on Wednesday, is expected to show a rise of 0.3 per cent for November (0.2





per cent excluding the volatile food and energy components), according to economists surveyed by MMS International. Those are exactly the same levels expected for November's consumer prices index, due on Thursday.

Of more immediate interest will be retail sales figures for November, also on Thursday. A late start to the holiday shopping season, because of an unusually late Thanksgiving, may produce a subdued report.

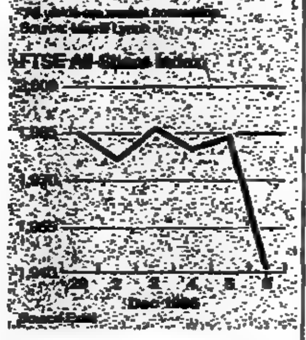
LONDON By Philip Coggan

After the battering they took on Friday, the UK's equity and bond markets will be hoping for a calmer period. London was hit, like other markets, by the reaction to the comments of Mr Alan Greenspan, chairman of the Federal Reserve, about "irrational exuberance" in asset markets.

The FTSE 100 index rebounded from a 169-point fall to close 88 down, but nevertheless lost touch with the 4,000 level; long gilts fell by 1¼ points. Much will depend on whether the US market suffers a continued reaction to Mr Greenspan's comments, or rebounds, as it has so often before.

The latest political developments, with Mr John Gorst quitting the Conservative whip, and ushering in a minority government did little to steady the market's nerves. Gilts had already been hit by a disappointing auction in the middle of the week and the Gorst move will remind investors of the imminent general election.

Interest rates remain an important issue for the market, and last week traders were cheered by some low-key remarks on the subject from Mr Eddie George, governor of the Bank of England. On



Wednesday, he meets Mr Kenneth Clarke, the chancellor, for their monthly monetary meeting and traders do not expect Mr George to push Mr Clarke for a rate rise before Christmas.

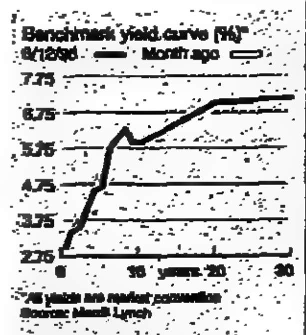
However, the inflationary outlook may become clearer after the market sees producer prices for November today or retail prices on Thursday. Most analysts still think that a base rate rise will come before the election.

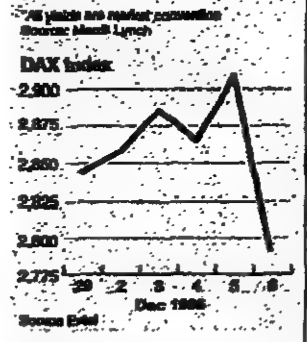
FRANKFURT By Wolfgang Münchau

The market tumbled just when even the most ardent pessimists became overwhelmed by euphoria. Some analysts had already eyed a DAX index of over 3000, when Alan Greenspan, the governor of the Federal Reserve, gave his warning.

The market did recover in after-hours trading on Friday in the light of "good" US unemployment figures – meaning a rise in unemployment. But the 4.1 per cent fall in the DAX during official trading still marked the largest decline since the aborted coup attempt against President Mikhail Gorbachev.

A growing number of analysts are forecasting further weakness, especially as investors take profits at the end of the year. A soft landing is what analysts have in mind – a short pause before the next bull run – and that may well happen as long as there are no nasty shocks such as an unexpected surge in inflation in the US or in Germany. It is apparent that pressure is slowly building towards higher interest rates as the German economy emerges from the mini-recession of a year ago. The official line remains that interest rates are not likely to move one way or the other for some time, but it





must be clear by now that the next movement in interest rates is upwards, rather than downwards.

That expectation was reflected by the 21 basis point rise in the average yield of German bonds, from 5.06 per cent to 5.27 per cent, on Friday. Nervousness in the bond market was also reflected by the fall in the March contract of the Bund future, which crashed by just over 100 basis points during official trading on Friday.

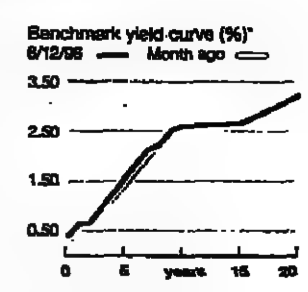
TOKYO By Gwen Robinson

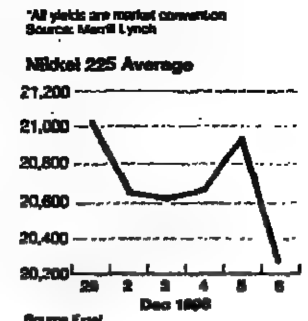
Markets have now received confirmation that Japan's economy is still on a modest recovery track, albeit a shaky one. Leaving aside the impact of Fed chairman Mr Alan Greenspan's comments on Friday, Japanese equities are likely to stay in a narrow range this week, with the key 225 index hovering either side of the 20,500. Bonds are expected to show more volatility.

Third-quarter GDP figures released last week, together with the Bank of Japan's quarterly *tankan* survey in the preceding week, suggest new and still tentative momentum in such vital areas as consumer spending, industrial production and exports. Forecasts by economists for real GDP growth for 1996 range from about 3.2 per cent to 3.5 per cent.

Economic indicators due out this week include Wednesday's release of the October current account report, which is expected to show only a small decline or possibly a slight increase, the first since August 1995. Department store sales figures out later in the week are likely to show a revival in consumption from weakness over the summer.

"Based on the recent economic data, the Bank of Japan has no reason to





tighten policy yet . . . even if the Fed were to tighten its policy, there is no reason to expect the BoJ to follow suit," said Mr Peter Morgan, economist at James Capel.

He noted, however, that investors should not be over-confident about the bond market, which rests on just a few bull factors: continued assurance of easy monetary policy and expectations that growth will weaken after the increase in consumption tax next April.

COMMODITIES By Bernard Simon

Spotlight on pulp and paper

The uncertain outlook for pulp and paper markets and friction between producers and their customers are likely to preoccupy industry experts gathering in London for a conference this week.

After steep price declines earlier this year, the market for pulp and most grades of paper remains in the doldrums. Producers have struggled to push through planned price increases in the face of slack demand and high inventories.

The market for packaging papers has recently picked up. But prices for some other grades, notably newsprint and fine papers, are still falling.

North American newsprint buyers currently pay as little as $450–$500 a tonne, down from the 1995 peak of $750. Export orders are said to have fetched even lower prices as producers seek every possible outlet for sales, rather than shut down machines.

Analysts predict a modest upturn for most paper grades in 1997, especially in North America. Although demand in Asia could pick up, prospects are clouded by the commissioning of a slew of new pulp and paper mills.

The price volatility of the past two years – pulp prices first doubled, then halved – has strained relations between producers and customers.

Union Bank of Switzerland noted in a recent report that European papermakers had "done themselves no favours in the eyes of both their customers and their shareholders" by their behaviour over the last few years. "Excessive price rises and capacity construction have been graphic illustrations of the industry's self-destructive tendencies," it said.

Many paper companies have further sowed confusion by announcing, but not implementing, mill closures.

The annual world pulp and paper conference – organised by the Financial Times – will be held on Thursday and Friday. Among topics on the agenda is the viability of a futures market to bring greater stability to the sector.

OTHER MARKETS Compiled by Michael Morgan

Friday's shake-out for stock markets worldwide sent the volatility indices spinning upwards to new highs and left investor sentiment in tatters.

PARIS

Even before Friday's wave of selling, the Paris bourse had been having a bad run, unsettled by political and currency worries which the surprise veto for the Lagardère takeover of the Thomson group only served to highlight.

Domestic considerations may take a back seat to global events this week, but the former will remain a potent force. Talk of a government reshuffle persists, and investors will continue to track the franc's performance on foreign exchanges.

"Recent events have damaged the country's reputation. International investors are going to remain wary," said one analyst.

This week's corporate news calender is dominated by a tight bunching of analysts meetings, notably at Club Mediterranée, Euro Disney and foods group, Danone. Danone meets with analysts on Wednesday and is expected to provide insights into last week's FFr2.9bn ($557.9m) purchase of the outstanding minority in pasta group Panzalim.

STOCKHOLM

Bid speculation and a strong recovery for the paper sector drove the market to new highs last week, which Friday's heavy shake-out did not entirely unwind.

The bid talk picked out drugs group Astra as a potential target for Roche, the Swiss drugs group which is seen by many observers as in need of a big deal.

Roche's Swiss rivals Ciba and Sandoz plan to merge their drugs operations early next year to form the world's second-biggest drugs combine. Roche, they argue, needs a link with Astra to stay on terms. Both Astra and the Investor group, which controls 10 per cent of the Astra equity and 12 per cent of the votes, are expected to stay active and at the centre of some the hottest takeover gossip in Europe.

ZURICH

Tag Heuer, the sports watchmaker, whose shares have performed dismally since they were floated in September, will be hoping to revive investors' confidence when it meets analysts tomorrow. The shares, floated at SFr245, have traded at a discount ever since. By Friday they were quoted at just over SFr180.

Tag Heuer has almost inevitably been compared with SMH, whose products range from the Swatch watch at the cheap end of the range to Omega, its leading high-price brand. The SMH shares are little changed over the same period, having clawed back after taking a sharp hit in October when Standard and Poor's MarketScope research group raised questions about the stability of its Smart car, being developed in a joint venture with Mercedes-Benz.

HONG KONG

Hong Kong's stock market looks set for a rocky ride this week, *writes Louise Lucas in Hong Kong*. Some traders expect a further sell-off, following Friday's 2.88 per cent slide for the benchmark Hang Seng index.

Dealers reckon the index could fall a further 300 points, but most see support at 12,700. The index closed on Friday at 13,102.73, after touching an intra-day low of 12,870. But more bullish dealers point to the rash of upcoming new listings, two of which are said to be more than 100 times subscribed, and the recent high levels of activity.

Recent new issues have made strong debuts, and turnover in the market as a whole has been heavy. It surged to HK$13.8bn on Friday, while November's daily average was HK$9.4bn, up 35 per cent October.

CURRENCIES By Simon Kuper

Emu stability pact meeting focus of attention

Foreign exchange traders will this week be watching Dublin Castle, where European Union leaders will gather to try to thrash out a stability pact for European monetary union.

The pact would lay down fiscal targets that member states joining Emu must meet for years to come. If the politicians agree – as French and Italian politicians have hinted they will – that would fuel moves toward Emu, thus probably weakening the D-Mark. If they agree a loose pact, presaging that the future single European currency would be softer than the D-Mark has been, that could weaken all currencies likely to join Emu.

Germany has been almost alone in calling for a strict pact. But German Chancellor Helmut Kohl meets Mr Jacques Chirac, the French president, in Nuremberg today in an attempt to agree a joint position.

Traders will also watch US prices data. Last Friday Mr Alan Greenspan, chairman of the Federal Reserve, talked tough on inflation, saying the Fed must beware of "irrational exuberance" infecting asset markets.

US producer and consumer price indices appearing this week could back up his warnings. The market expects the CPI to accelerate in November to 3.3 per cent growth year-on-year, its highest level since May 1993. That could add impetus for a US rate rise.

However, in the UK, both retail and producer price inflation are expected to show slight declines this week. That could reduce pressure on Chancellor Kenneth Clarke to raise base rates when he and Mr Eddie George, governor of the Bank of England, discuss monetary policy on Wednesday.

The short sterling futures market expects a rate rise. Most City of London economists do not. If no increase materialises, sterling could continue last week's plunge.

CROSS-BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
KPN (Netherlands)	TNT (Australia)	Transport	$1.62bn	Declared unconditional
Saga Petroleum (Norway)	Santa Fe (UK)	Oil & gas	$1.23bn	Kuwaiti sale
EdF (France)/RWE (Germany)	Motor-Columbus (Switzerland)	Power	$394m	UBS sells 40%
British Aerospace (UK)	STN Atlas Electronik (Germany)	Electronics	$170m	49% stake sealed
Sun Healthcare (US)	Ashbourne (UK)	Healthcare	$156m	Recommended cash offer
Premier Oil (Australia)	Discovery Petroleum (UK)	Oil & gas	$85m	Increased offer
LG Chemical (S Korea)	Hindustan Polymers (India)	Plastic resins	$35m	Asian expansion
Logica (UK)	Axime Ingenierie (France)	Computer services	$30m	Entering French market
Pernod Ricard (France)	Two Dogs (Australia)	Drinks	n/a	Alcopop buy
Brierley Investments (NZ)	Union Shipping (Australia/NZ)	Transport	n/a	Taking TNT's half

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, December 6, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7796.07	4750.00	3068.61	4214.36
Albania	(Lek)	166.715	101.550	65.9244	90.0985
Algeria	(Dinar)	93.0844	56.7000	36.8066	50.3061
Andorra	(French Fr)	8.5333	5.1979	3.3745	4.6117
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MARKETS: This Week

EMERGING MARKETS By Sophie Roell

B-shares find new lease of life

Just weeks after sinking to historic lows in Shanghai, China's B-shares – the only mainland-listed securities in which foreigners are allowed to invest – last week reached their highest level in more than two years.

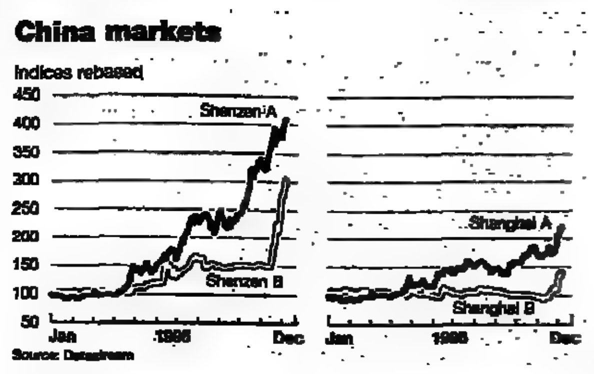
Brokers are quick to point out that there has been little change in market fundamentals. Instead, they attribute the rise to renewed confidence among the Chinese that they can buy B-shares without being punished. Officially, domestic buying of the foreign currency-denominated shares is banned.

In less than a month, Shenzhen listed B-shares have risen by more than 50 per cent to their highest levels since early 1993.

Having made money in Shenzhen, investors quickly turned their attention to Shanghai, where the B-share index closed last week at 66.69 – not only well ahead of the historic low of 44.87 on November 11, but also well above the 50 level around which it has been hovering for nearly two years.

Even last Friday, Shanghai and Shenzhen remained insulated from the influences that left many other markets tumbling after Mr Alan Greenspan, chairman of the US Federal Reserve, warned about the irrational exuberance of financial markets. Shanghai added another 3.9 per cent and Shenzhen 5 per cent.

China markets



Source: Datastream

However, while foreigners are taking part, by far the bulk of new interest is being generated by domestic investors. One broker estimates that Chinese investors accounted for around 70 per cent of Shanghai B-share turnover last week.

"There has been no official announcement," said one Chinese broker in Shanghai, referring to the government's attitude to domestic buying of B-shares. "However, in visiting securities firms, authorities have indicated they are prepared to be flexible about the ban."

He added that brokers have long been pressing the government to allow locals to buy B-shares, as a way of generating trading volume in a highly illiquid market. As market turnover soared last week, this appeared to have been achieved.

Chinese investors need little encouragement. Beyond bank deposits, savers have few other outlets – a factor which has also contributed to the impressive performance of the domestic-investor A-share market this year.

As they now trade at large discounts to A-shares, B-shares are particularly attractive. Before last week's rally, a B-share in Shanghai cost an average 75 per cent less than an A-share in the same company – in spite of their carrying the same voting rights and paying the same dividends.

Local investors say the shares are not only cheap, but will certainly rise when, as the government has promised, the two share types are eventually merged.

Renewed domestic interest has favoured Shenzhen. As a special economic zone with a mandate to "experiment" with economic reforms, it has been able to adopt a more free-wheeling approach to central government directives – including the ban on local B-share buying.

Shenzhen is also across the border from Hong Kong, making access to the Hong Kong dollars needed to buy its B-shares relatively straightforward. Shanghai B-shares are in US dollars.

Mr John Crossman of Jardine Fleming Securities in Shanghai, believes this is enough to account for Shenzhen's more impressive performance. "It comes down to the fact that Hong Kong dollars are easier to get hold of than US dollars," he says.

However, the Shenzhen authorities this year have also taken the lead in efforts to boost investor interest in their stock market.

Shanghai's complacency – that its destiny as the mainland's commercial and financial hub is sealed and companies would hence continue to list there – has given way to concern, as Shenzhen has lured a number of state-owned enterprises to raise capital. It has seen nine new counters listed this year, against Shanghai's four.

Both markets are under pressure to boost the size of individual floats, and the market capitalisation of the B-share market as a whole. With 85 companies listed, total market capitalisation of both markets is just $4.2bn.

Major foreign institutional investors say this is one of the main reasons they have been reluctant to buy mainland-listed Chinese stocks. And brokers point out that, in spite of the current surge, not enough has changed to justify a return of confidence in the B-share markets.

In the long-term, structural issues will have to be addressed before foreign investors take China's stock markets seriously. In the meantime, foreign investors are enjoying a bit of a "flutter", according to one broker – before the government again steps in to dampen local speculation.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	06/12/96	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (449)	158.94	+0.49	+0.31	+0.84	+0.53	+11.38	+7.71
Latin America							
Argentina (22)	103.51	+3.25	+3.24	+5.63	+5.97	+10.73	+11.57
Brazil (24)	256.48	+10.09	+4.10	+5.02	+2.00	+70.39	+37.35
Chile (16)	167.64	-3.51	-2.05	-15.14	-8.28	-26.02	-14.32
Colombia (13)	175.45	-0.03	-0.02	-3.46	-1.93	+11.20	+6.82
Mexico (27)	81.32	+2.03	+2.57	+1.57	+1.98	+7.72	+10.50
Peru (12)	1044.39	+22.54	+2.21	-33.43	-3.10	-24.56	-2.30
Venezuela (6)	58.95	0.65	-1.09	+1.63	+2.85	+31.44	+114.30
Latin America (119)	142.38	+3.65	+2.65	+1.21	+0.86	+19.23	+15.62
Europe							
Czech Rep.(14)	97.85	+0.51	+0.53	+0.15	+0.18	+21.56	+28.25
Greece (20)	110.13	-1.36	-1.22	-6.10	-5.26	+12.16	+12.41
Poland (25)	332.22	-4.23	-1.26	-7.84	-2.30	+131.08	+65.16
Portugal (18)	140.60	+0.12	+0.08	+0.22	+0.16	+24.34	+20.90
South Africa (30)	129.56	-3.55	-2.67	-3.58	-2.71	-23.81	-15.53
Turkey (27)	127.97	+6.44	+5.30	+13.38	+11.68	+45.17	+54.58
Europe (134)	116.88	-1.53	-1.29	-1.51	-1.28	-4.65	-3.83
Asia							
China (27)	50.86	+3.73	+7.94	+7.06	+16.16	+10.34	+25.55
Indonesia (30)	155.45	+3.78	+2.49	+9.62	+6.60	+16.80	+12.12
Korea (23)	87.06	-5.56	-6.01	-6.38	-6.83	-40.65	-35.41
Malaysia (24)	268.57	+7.80	-2.82	+2.35	+0.88	+41.31	+18.17
Pakistan (18)	65.47	-1.02	-1.53	-8.94	-12.02	-8.12	-11.04
Philippines (18)	311.56	+6.66	+2.19	+12.88	+4.31	+52.40	+20.22
Taiwan (31)	185.60	+1.94	+1.06	+5.33	+2.98	+54.78	+41.87
Thailand (29)	166.41	-9.52	-5.41	-13.72	-7.62	-85.48	-33.94
Asia (193)	216.53	-2.06	-0.94	+2.41	+1.13	+13.48	+6.64

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By [illegible]

Australasia feels weight of Japanese retail

Virtue is not always a rewarding pursuit. Australia's new-found reputation as a low inflation country, where high real interest rates can still be secured, has driven its currency to levels few would have envisaged a couple of years ago.

Last week, the Australian dollar topped US$0.82, its highest for six years. This compares with less than US$0.65 in late 1993, when a former Labor Government's budget was stalled in parliament – an appreciation of more than 25 per cent.

Almost immediately, the wails from exporters intensified. Vainly, ministers pointed to the benefits from cheaper imports, and general deflationary impact of a stronger dollar. Even the prime minister conceded that the high dollar was "a pain in the neck for some people", before adding: "For others, it's a good thing."

None of this was news across the Tasman, where the New Zealand dollar has been on an upward roll for slightly longer, appreciating by about 30 per cent over the last four years. On Thursday, exporters there held an emergency summit to discuss the situation and debate possible remedies. Some resource-based export businesses, from horticulture to fishing, were said to be "close to the wall".

Foreign exchange traders see an underlying common cause in this – the wave of Japanese retail money moving into offshore markets in pursuit of higher yields over the past 18 months.

Australia and New Zealand have been prime targets. For slightly different reasons, both offer attractive real returns, and their traditional susceptibility to inflation seems to have receded.

These inflows first became noticeable in mid-1995. Australia's Reserve Bank, reviewing the developments earlier this year, pinpointed two causes. First, it noted regulatory changes in Japan which made bonds denominated in foreign currencies more attractive (and accessible) to Japanese investors.

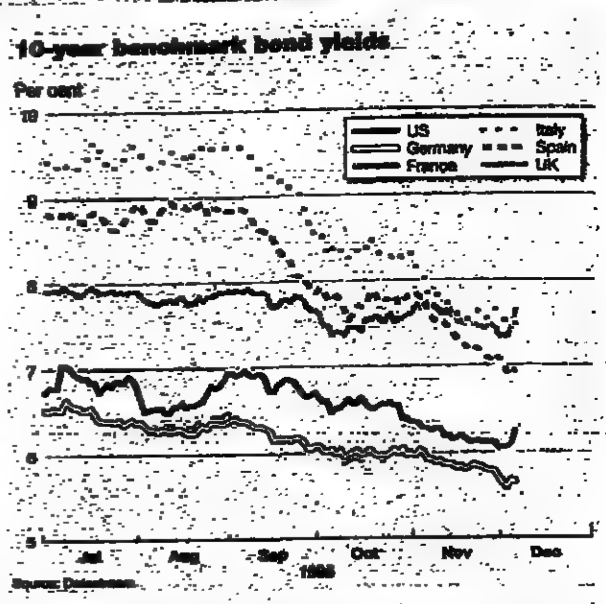
Second, it pointed to the large number of high-coupon Japanese debentures which had began to mature. Most had been issued in the late 1980s and early 1990s, when Japanese domestic interest rates were higher. Replacement investment opportunities were needed.

Since then, the capital market repercussions for Australasia have been dramatic. Australian dollar eurobonds on issue offshore rose by around A$25bn to A$67bn in 1995, for example, with the increase heavily concentrated in Japan.

An even sharper rise occurred in dual-currency bond issues, again targeted at the Japanese retail market. According to the Reserve Bank, there were 19 such issues by Australian borrowers raising a total of A$4.2bn in 1995, mainly in the second half. A further 60 issues were generated by non-Australian borrowers, worth another A$10.1bn. This trend has continued, although 1996 figures have yet to be computed.

At the forefront of issuers are the Australian state government treasuries. In 1995–96, the Treasury Corporation of Victoria secured its entire A$1.85bn offshore borrowing needs from the Japanese retail sector with three A$-denominated and three dual-currency issues, with one-year to three-year maturities and coupons ranging from 5 to 6.2 per cent.

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.20[1]	7.50	6.00[2]
Overnight	5.19	0.47	3.00	3.30	7.75	5.75
Three month	5.01	0.29	3.13	3.37	7.16	6.28
One year	5.45	0.40	6.75	3.20	6.55	6.78
Five year	6.01	1.46	4.65	4.71	6.92	7.30
Ten year	6.25	2.55	5.83	5.78	7.65	7.63

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

More recently, some of the smaller authorities have also joined the throng. Last month, for instance, the Australian Capital Territory government made its first foray in offshore capital markets with a Y6.5bn three-year dual-currency issue – although, unusually for an Australian borrower, it offered repayment in NZ$.

A few Australian issuers have even emerged from outside the main government and banking sectors. Two weeks ago, the Australian Wheat Board, the industry's single-desk export arm, announced a Y20bn dual-currency issue, a marked departure from its practice of borrowing in the commercial paper market. It last ventured into the eurobond market about eight years ago.

Political uncertainties in both Australia and New Zealand, meanwhile, have had little impact on this yield-driven Japanese interest. As far as Australia is concerned, most traders concede that the inflows had begun well before the federal election in March, and could hardly be attributed to the installation of the new fiscally-conservative government.

More remarkably, the two-month political hiatus in New Zealand – which followed an October 12 election and left the country in the hands of a caretaker administration – has not seriously ruffled either the capital or foreign exchange markets. The New Zealand dollar has actually strengthened.

The big question is what happens now. The Australian dollar – like other dollar-bloc currencies – saw a sharp hiccup mid-week, although this was put down to trading by New York-based funds. But some analysts think that if the Japanese authorities begin to feel more comfortable with the yen's level, and domestic interest rates rise, the inflows could start to fall away – although probably fairly gradually.

"The focus now will be on the Japanese authorities. After all, they were successful in depreciating the yen this year," says Mr John Brown of Macquarie Bank.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
[illegible]	62.50	Dec 2000	3.50	100.00	-	-	[illegible]
SNS	200	Dec 2000	5.875	99.948	5.892	+20	[illegible] Capital Markets
Banco BBA Creditanstalt(j)	100	Dec 1997	7.25§	100.00R	7.25	+180([illegible])	[illegible] Capital Markets
Cadbury‡	2bn	Dec 2001	(l)	99.795R	-	-	SBC/JP Morgan Secs
MLCC MI 96-D, Cls A(e)‡	627.66	Mar 2010	(e1)	100.00R	-	-	Merrill Lynch Intl
Inst de Credito Oficial§	500	Jan 2002	6.00	99.673R	6.075	+16(5⅞%-Nov01)	Goldman Sachs Intl
American Express Bank‡	300	Dec 2001	(f)	99.970R	-	-	Morgan Stanley Intl
Banco Rural(g)	125	Dec 2004	10.50§	99.750	10.42	+475([illegible])	CSFB/Deutsche MG
SBC, Jersey Branch(k)	100	Dec 1999	5.75	99.96R	5.769	[illegible]	SBC Warburg
Oest Kontrollbank(i)	75	Jan 2001	6.00	100.249	5.931	+10([illegible]Jan01)	Generale Bank
Banque Indosuez, Lux(i)	75	Dec 1998	8.00§	99.855R	8.080	+250([illegible])	Indosuez Capital
Banco Noroeste(k)	50	Dec 2004	9.50§	99.50R	9.279	+390([illegible])	Bankers Trust Intl
Fed Housing Fin Board(m)★	500	Dec 1999	6.00§	100.00R	6.000	-	[illegible] Stanley
FUSA CCMT, 96-8, Cls A(o)‡	400	Jan 2004	(o1)	100.00	-	-	JP Morgan Securities
Standard Chartered Bk(p)‡	200	Dec 2006	(p1)	100.00	-	-	Goldman Sachs Intl
BPI Capital Finance(q)‡	150	undated	(q1)	100.00	-	-	Merrill Lynch Intl
Banco Credito de [illegible](r)	125	Dec 2004	9.50§	99.80R	9.450	+370([illegible])	Chase Manhattan Intl
Morgan Stanley Group(s)‡	400	Dec 2001	(s1)	99.780	-	-	Morgan Stanley Intl
Bank of Nova Scotia‡	300	Dec 1999	(t)	99.951R	-	-	Morgan Stanley Intl
Student Loan Mktg Assoc(u)	300	Dec 1999	5.00§	100.00R	5.000	+10([illegible]Nov99)	CSFB/Smith Barney
CC MCCT 2, 96-C, Cls A(v)‡	245	Dec 2003	(v1)	100.00	-	-	Merrill/JP Morgan
SudwestLB Capital Mkts	250	Dec 1999	5.75	99.84R	5.810	+25([illegible]Nov99)	SBC Warburg
Vodohospodarska Vystavba	200	Dec 2006	7.25§	99.651R	7.294	+115(6½%-06)	JP Morgan Securities
State of Israel	200	Dec 2001	6.375	99.607R	6.465	+50([illegible]Nov01)	Merrill Lynch Intl
Banco Bandeirantes(k)	100	Dec 2004	(w1)	99.9745R	10.01	+425([illegible])	West Merchant Bank
Korea Merchant Banking Corp‡	75	Dec 1999	(x)	100.00	-	-	WestLB
D-MARKS							
City of [illegible]‡	75	Dec 2001	(y)	100.000	-	-	ING Barings
Kingdom of Spain	2bn	Jan 2007	5.75	99.025R	5.900	+24([illegible])	Dresdner-KB
YEN							
Deutsche Bk, London(a)★	10bn	Dec 1998	4.20	100.125	-	-	Deutsche Morgan Grenfell
[illegible] Finance Ireland★	13.4bn	Dec 2000	0.50	98.20	1.384	-	IBJ International
SWISS FRANCS							
Bayer Vereinsbank Overseas	150	Jan 2007	4.00	101.75	3.787	-	Bank von Ernst
Republic of Finland	150	Jan 2002	3.25	101.75	2.860	-	SBC Warburg
Dresdner Finance	125	Jan 2007	4.125	102.75	3.789	-	Dresdner/SBC Warburg
DSL Bank(z)	100	Jan 2002	3.25	101.60	2.902	-	Credit Suisse
STERLING							
Lock Fin No 1, Cls A1(D1)‡	282.5	Dec 2007	(D2)	100.00R	-	-	UBS
Lock Fin No 1, Cls A2(D3)‡	[illegible]	[illegible]	(D4)	100.00R	-	-	UBS
World Bank★	300	Jul 2000	zero	78.755	6.486	-	Daiwa Europe
FRENCH FRANCS							
[illegible] Finance Ireland(E)	500	Jan 2007	(E1)	100.275	-	-	JP Morgan & Co
GUILDERS							
Ned Waterschapsbank§	350	Jan 2008	5.875	99.668R	5.916	+18(j)	ABN Amro Hoare Govett
ABN Amro Bank(j)	300	Nov 2006	6.25	100.61R	6.165	+45(j)	ABN Amro Hoare Govett
De NIB	300	Jan 2007	5.875	99.66R	5.921	+16.5(j)	ING Barings
ITALIAN LIRE							
UBS Finance(F)	2500bn	Jan 2027	zero	11.65R	7.429	-	Credito Italiano
SPLR No 1, Cls A-2000(A)‡	350bn	Jan 2000	(A1)	100.00R	-	-	San Paolo/Paribas
SPLR No 1, Cls A-2002(A)‡	305bn	Jan 2002	(A2)	100.00R	-	-	San Paolo/Paribas
SPLR No 1, Cls A-2005(A)‡	135bn	Jan 2005	(A3)	99.97R	-	-	San Paolo/Paribas
Republic of Argentina	500bn	Jan 2007	10.00	99.45R	10.09	+278(7¼%-06)	Chase Manhattan Intl
Morgan Guaranty Tst Co(G)	1250bn	Jan 2027	zero	13.00	7.097	-	Cariplo/JP Morgan Secs
AUSTRALIAN DOLLARS							
State Bank of NSW	100	Jan 2002	6.75	101.10	6.495	-	Hambros Bank
ECU							
Kredietbank Intl Finance	55	Jan 2005	(n)	101.55	5.65	-	Kredietbank Intl Group
Bayerische Hypo(B)	200	Jul 2001	5.00	99.874R	5.01	+19(6%-01)	Banque Paribas
PESETAS							
KfW International Finance	10bn	Jan 2017	6.75	99.65	6.782	-	Banco Central Hispano
Finnish Export Credit	10bn	Jan 2007	6.65	101.38	6.859	-	Banco Bilbao Vizcaya
CANADIAN DOLLARS							
Toyota Credit Canada(s)	125	Dec 2002	6.25	99.15R	6.42	+30(7%Sep01)	CIBC/Paribas Capl Mkts
NEW ZEALAND DOLLARS							
Rabo Australia	100	Jan 1999	7.00	101.00	6.402	-	Toronto Dominion Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ♦With equity warrants. ★Unlisted. Semi-annual coupon and yield. R: fixed re-offer price. a) Denom: $10,000 +2 wrts to MOF Corp at Y581. FX: 112.00Y/$. b) 6-mth Libor +22½bp. c) Redeemed in Yen or US$. d) 3-mth Libor -1/16%. e) MLCC Mortgage Investors. Legal maturity: Feb 2025. Average life: 5.31 yrs. Plus 25 days accrued. e1) 1-mth Libor +30bp. f) 3-mth Libor +1/8%. g) Puttable on 13/12/99 at 99.44%. h) $300m launched 29/11/96 was increased to $400m. i) Over interpolated yield. j) Brazil risk. k) Callable & puttable on 19/12/99 at 99.60%. l) Long 1st coupon. m) 4% to 20/1/98, then 5% to 01, then 6¼% to 03, then 9%. n) Callable on 17/12/97 at par. o) First USA Credit Card Master Trust. Legal maturity: Aug 08. o1) 1-mth Libor +12bp. o2) Class B: $36.2m, 1-mth Libor +34bp, par, 12/1/04. p) Callable from Dec 2001 at par. p1) 3-mth Libor +140bp to Dec 01, [illegible] 99 at 99.90% & 99.70% and on 11/12/01 at 99.90% and 99.70%. s) Short 1st coupon. t) Fungible with Fl 600m. Plus 19 days accrued. u) Callable from Dec 98 at par. u1) 3-mth Libor +15bp. v) 3-mth Libor -6⅞bp. w) Callable on 18/12/97 at par. x) Chevy Chase Credit Card Master Trust. Legal maturity: May 07. x1) 1-mth Libor +14bp. x2) Class B: $25.5m, Libor +¼%, par, Feb 04. y) Callable & puttable on 12/12/99 & 12/12/01 at par. y1) 10% to 12/12/99, then 10¼% to 12/12/01, then 10½%. z) SFr150m launched 8/11/96 was increased to SFr250m. A) San Paolo Leasint Receivables. A1) 3-mth Libor +5bp. A2) 3-mth Libor +8bp. A3) 3-mth Libor +15bp. B) Spread relates to French govt BTAN. C) 6-mth Libor +50bp. D) Callable from 18/12/02 at par. D1) Average life: 1.25 yrs. D2) 3-mth +7bp to Dec 02, then +20bp. D3) Average life: 4.97 yrs. D4) 3-mth +14bp to Dec 02, then +35bp. D5) Class B: £74.8m, 3-mth Libor +33bp to Dec 02 then +65bp, par, av life 6 yrs. D6) Class B: £28.3m, 3-mth Libor +60bp to Dec 02 then +110bp, par, av life 6 yrs. E) Callable on 15/1/02 at par. E1) 5.20% to 15/1/02, then 7%. F) Includes L1000bn increase at 11.30R. G) Includes L250bn increase at 12.80%. Note: Yields are calculated on ISMA basis.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Dec 6		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.7926	-0.0096	826 - 026	17.9298	17.8771	17.7491	2.9	17.6926	2.2	-	-	104.4
Belgium	(BFr)	52.1158	-0.0415	753 - 563	52.5480	51.8670	51.9908	2.9	51.7258	3.0	50.5308	3.0	105.3
Denmark	(DKr)	9.8877	-0.0049	831 - 923	9.7833	9.6318	9.8677	2.5	9.8272	2.5	9.4482	[illegible]	107.0
Finland	(FM)	7.5844	-0.0043	558 - 728	7.6250	7.5200	-	-	-	-	-	-	[illegible]
France	(FFr)	8.5333	-0.0147	301 - 365	8.6075	8.5032	8.5126	2.9	8.4709	2.9	8.2682	3.1	108.2
Germany	(DM)	2.5288	-0.0014	274 - 301	2.5502	2.0131	2.5223	3.1	2.509	3.1	2.4442	3.3	107.2
Greece	(Dr)	399.327	+0.986	091 - 564	401.752	395.890	-	-	-	-	-	-	66.8
Ireland	(I£)	0.9952	-0.0002	944 - 959	0.9977	0.9936	0.9949	0.4	0.9939	0.5	0.9873	0.8	101.8
Italy	(L)	2498.26	+3.14	627 - 025	2517.01	2484.27	2502.06	-1.8	2509.56	-1.8	2514.06	-0.6	77.9
Luxembourg	(LFr)	52.1159	-0.0415	753 - 563	52.5480	51.8670	51.9906	2.9	51.7259	3.0	50.5308	3.0	105.3
Netherlands	(Fl)	2.8360	-0.0021	346 - 374	2.8587	2.8184	2.8282	3.3	2.8127	3.3	2.7392	3.4	105.5
Norway	(NKr)	10.5755	-0.011	706 - 804	10.6683	10.5297	10.563	1.4	10.548	1.2	10.498	1.3	99.7
Portugal	(Es)	255.449	-0.199	289 - 608	257.631	254.405	255.644	-0.9	256.014	-0.9	-	-	95.4
Spain	(Pta)	213.044	+0.305	887 - 190	214.495	211.974	213.209	-0.9	213.439	-0.7	213.409	-0.2	78.5
Sweden	(SKr)	11.1430	+0.057	314 - 546	11.2202	11.0808	11.1418	0.1	11.1392	0.1	11.1268	0.1	88.3
Switzerland	(SFr)	2.1443	+0.0002	431 - 455	2.1579	2.1269	2.1382	4.6	2.121	4.3	2.0485	4.4	108.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	92.0
Ecu	-	1.3116	+0.0001	109 - 123	1.3220	1.3066	1.3087	1.8	1.3053	1.9	1.2898	2.1	-
SDR†	-	1.188700	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6409	+0.0136	404 - 414	1.6478	1.6333	-	-	-	-	-	-	-
Brazil	(R$)	1.6984	+0.0144	978 - 990	1.7055	1.6900	-	-	-	-	-	-	-
Canada	(C$)	2.2333	+0.0217	322 - 344	2.2445	2.2165	2.2281	2.8	2.2175	2.9	2.1585	3.4	84.8
Mexico	(New Peso)	13.0179	+0.161	082 - 276	13.0973	12.8987	-	-	-	-	-	-	-
USA	($)	1.6417	+0.0142	412 - 422	1.6486	1.6335	1.6409	0.6	1.6382	0.8	1.6219	1.2	97.7
Pacific/Middle East/Africa													
Australia	(A$)	2.0608	+0.0218	590 - 615	2.0711	2.0474	2.0616	-0.8	2.0623	-0.4	2.0619	-0.1	94.5
Hong Kong	(HK$)	12.6936	+0.1097	888 - 983	12.7462	12.6315	12.6863	0.7	12.6724	0.7	12.6078	0.7	-
India	(Rs)	58.7762	+0.5035	006 - 515	58.9650	58.5180	-	-	-	-	-	-	-
Israel	(Shk)	5.3802	+0.0512	731 - 872	5.3906	5.3442	-	-	-	-	-	-	-
Japan	(Y)	185.036	+1.877	914 - 158	185.580	183.490	184.106	6.0	182.251	6.0	173.886	6.1	128.6
Malaysia	(M$)	4.1368	+0.0339	347 - 388	4.1540	4.1181	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3328	+0.0195	313 - 343	2.3460	2.3237	2.3396	-3.5	2.349	-2.8	2.3698	-1.6	111.5
Philippines	(Peso)	43.1767	+0.3815	979 - 555	43.0264	43.0978	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.1572	+0.0582	550 - 594	6.1827	6.1269	-	-	-	-	-	-	-
Singapore	(S$)	2.2976	+0.0166	960 - 991	2.3074	2.2876	-	-	-	-	-	-	-
South Africa	(R)	7.6569	+0.0565	505 - 633	7.6839	7.6254	-	-	-	-	-	-	-
South Korea	(Won)	1364.50	+12.76	400 - 500	1367.23	1358.61	-	-	-	-	-	-	-
Taiwan	(T$)	45.1468	+0.3905	002 - 935	45.3035	44.9589	-	-	-	-	-	-	-
Thailand	(Bt)	41.9454	+0.3383	162 - 746	42.1130	41.7280	-	-	-	-	-	-	-

† Rates for Dec 5. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

STERLING FUTURES (IMM) £62,500 per £

[illegible]

Pound in New York

[illegible]

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 (cents per DM)

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

UK clearing bank base lending rate 6 per cent from October 30, 1996

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

FT GOLD MINES INDEX

[illegible]

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

All Open interest figs. are for previous day

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

BANK RETURN

[illegible]

BASE LENDING RATES

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

STOCK INDICES

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Allied Domecq	♦	420½xd	-3.0	23.59	1.4	Feb Jul	2.12	[illegible]
Bulmer (HP)	♦	542½	—	13.2	2.3	Feb Sep	29.7	2806
Burn St Dist	♦	71	—	3.4	0.3	May Nov	28.10	1916
Glenmorangie A	†	849	-9	12.27	3.0	Jan Jul	17.6	3257
Grand Met	♦	434½	-6.5	15.9	1.9	Apr Oct	22.7	2759
Guinness	♦	439	-1.3	15.25	2.1	May Nov	7.10	2781
Highland	♦	349xd	1.0	8.3	2.5	Jan Jun	2.12	2889
5¼pc Cnv Bds		97¼	—	-	-	-	-	-
Kirin Y		688¼	0.5	Q26%	4.2	Sep Mar	-	1118
Matthew Clark	♦	279½	-5.5	26.0	0.7	Apr Oct	22.7	2153
[illegible]	♦	1124	21.6	4.8	7.6	Jan Oct	15.7	[illegible]
Seagram $		£24½	-1.5	Q68c	-	MrJnSeDe	3.9	-

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Barings 8pc Cm 2nd Pf		50½	-	8%	-	Jun Dec	11.94	1707
Cater Allen	♦	394	7.5	38.0	0.8	Jan Aug	8.7	2051
Close Bros	♦	315	-2.6	10.0	2.4	Apr Oct	30.9	[illegible]
Gerrard & Nat	♦	275xd	1.5	20.8	1.1	Jul Dec	28.10	[illegible]
Hambros		232½xd	-3.9	7.5	1.6	Aug Dec	25.11	[illegible]
7¼pc Cv Pf		107½	-2.3	7¼%	-	Apr Oct	2.9	[illegible]
King & Shaxson	♦	182½xd	-5	9.0	1.0	Jan Aug	25.11	[illegible]
Leopold J	♦	495	—	19.5	1.4	Jan Sep	12.8	[illegible]
Rea Brothers	♦	69½	-1.6	1.0	2.5	May Oct	27.8	[illegible]
Schroders	♦	1565	-1.6	17.5	5.0	May Oct	16.9	[illegible]
N/V		1265	-1.6	17.5	5.0	May Oct	16.9	[illegible]
Singer & Fried	♦	126½	-4	4.25	3.2	Jan Nov	23.9	[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, FOOD - Cont.

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Majestic Wine (AIM). Deletions: Neotronics (E&EE), Dominion Energy (Exin), Quadrant (Eng), Kleinwort Euro Prvt Ord & Wrts and Thornton Asia Emg Mkts (IvTs), Farringford and Kunick (L&H), Command Prtns (O&E) and Belcanto and SCS Sit Comms (AIM).

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

هكذا من الأصل

Offshore Funds and Insurances

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

Fidelity Funds - Contd.

Mercury Asset Management S.A. - Contd.

Aetna International Umbrella Fund - Contd.

Credit Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation

LUXEMBOURG (REGULATED)

OFFSHORE INSURANCES

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OTHER OFFSHORE FUNDS

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

[illegible]

PACIFIC

[illegible]

AFRICA

[illegible]

NORTH AMERICA

[illegible]

INDICES

[illegible]

Jakarta Comp.(10/8/82)	628.12	634.29	628.28	634.29 5/12	512.48 2/1
Ireland					
ISEQ Overall(4/1/88)	2848.31	2694.52	2673.41	2700.86 4/10	2234.01 2/1
Italy					
Banca Comm Ital(1972)	646.58	650.77	657.05	674.10 20/5	572.21 27/3
MIB General(2/1/88)	1097.0	1121.0	1114.0	1142.00 20/5	979.08 27/3
Japan					
Nikkei 225(16/5/49)	20275.70	20943.90	20859.91	22666.80 26/6	19234.70 13/3
Nikkei 300(1/10/82)	288.59	293.92	290.59	319.70 26/6	284.48 11/3
Turkey					
Istanbul Comp.(Jan 1986)	94407.2	93923.8	91802.6	94407.28 6/12	38778.30 2/1
WORLD					
MS Capital Intl(1/1/70)	810.4*	824.4	822.1	837.20 25/11	725.98 15/1
CROSS-BORDER					
Eurotrack 100(26/10/90)	1847.18	1883.77	1880.88	1888.48 3/12	1504.40 11/1
Euro Top-100(26/6/90)	1546.80	1579.87	1578.41	1588.23 3/12	1333.81 11/1
HSBC JC Drgn(31/12/88)	(u)	418.89	417.18	420.29 27/11	344.19 2/1
MS Drgn Euro(7/1/92)	158.94	160.19	160.21	165.91 4/7	147.36 2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index)							
Dec	2252.0	2239.0	-56.0	2253.0	2182.0	41,976	29,378
Jan	2258.5	2231.0	-88.5	2258.5	2208.0	688	2,364
DAX							
Dec	2837.0	2835.0	-58.5	2854.5	2759.0	55,420	99,810
Mar	2856.0	2855.5	-59.0	2875.0	2778.5	7,185	-
OMX							
Dec	1810.00	1820.00	-22.00	1820.00	1785.00	9,853	20,580
Jan	1809.00	1824.50	-25.50	1824.75	1784.00	1,179	8,374
SOFFEX							
Dec	3870.0	3826.0	-97.9	3870.0	3800.0	11,623	22,980
Jan	3870.0	3832.5	-87.0	3870.0	3818.0	294	2,055

** Sat Nov 30: Taiwan Weighted Price 6828.08; Korea Comp Ex 726.48. Base values of all Indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SMI30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7, JSE 25 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ‡ Toronto. (c) Closed. (u) Unavailable. ¶ IBIS/DAX after-hours Index: Dec 6 - 2882.53 -61.90

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¥ Subject to official recalculation.

US INDICES

Dow Jones	Dec 6	Dec 5	Dec 4	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6381.96	6437.10	6422.94	6547.79 (25/11)	5032.94 (10/1)	6547.79 (25/11/96)	41.22 (8/7/32)
Home Bonds	103.83	103.67	103.74	106.09 (14/2)	100.99 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2274.16	2316.47	2308.36	2315.47 (5/12)	1882.71 (18/1)	2315.47 (5/12/96)	13.23 (8/7/32)
Utilities	231.46	232.86	232.01	238.12 (25/11)	204.88 (30/7)	256.46 (31/8/93)	10.53 (8/7/32)

DJ Ind. Day's high 6441.20 (6491.14) Low 6274.24 (6363.31) (Theoretical♣)
Day's high 6433.38 (6452.01) Low 6292.50 (6402.07) (Actual♣)

Standard and Poors	Dec 6	Dec 5	Dec 4	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	739.60	744.38	745.10	757.03 (25/11)	598.48 (10/1)	757.03 (25/11/96)	4.40 (1/6/32)
Industrials¥	868.47	875.37	875.16	887.49 (2/12)	702.07 (15/1)	887.49 (2/12/96)	3.52 (30/6/32)
Financial¥	81.60	81.31	82.00	84.93 (29/11)	58.67 (10/1)	84.93 (29/11/96)	7.13 (4/8/74)
NYSE Comp.	380.15	382.75	383.23	388.86 (25/11)	321.41 (10/1)	388.86 (25/11/96)	4.64 (25/4/42)
Amex Mkt Val	585.70	590.03	588.99	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1287.88	1309.12†	1297.02	1309.37 (3/12)	988.57 (15/1)	1309.37 (3/12/96)	54.87 (3/10/74)

RATIOS

	Nov 29	Nov 22	Nov 15	Year ago
Dow Jones Ind. Div. Yield	2.01	2.02	2.06	2.30
	Dec 4	Nov 27	Nov 20	Year ago
S & P Ind. Div. yield	1.83	1.81	1.84	1.95
S & P Ind. P/E ratio	23.05	23.30	22.99	18.66

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Natl Power	7,258,600	30¾	+⅛
Micron Tech	5,464,400	34	+¼
IBM	4,911,600	155⅝	-2⅝
Advd Micro	4,823,300	28½	+2½
Philip Mors	4,533,800	109½	+1½
Compaq	4,173,200	83¾	-½
Chase Man	4,037,200	89⅝	+⅝
AT & T	3,944,000	38⅝	+⅛
Pepsico	3,920,800	29⅝	-⅛
Coca Cola	3,910,900	49	-¼

TRADING ACTIVITY

● Volume (million)	Dec 6	Dec 5	Dec 4
New York SE	487.799	486.510	488.446
Amex	27.235	25.890	28.033
NASDAQ	(u)	618.118	642.288
NYSE			
Issues Traded	3,293	3,325	3,297
Rises	560	1,228	1,042
Falls	2,039	1,282	1,435
Unchanged	694	815	820
New Highs	50	122	135
New Lows	65	26	31

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
S&P 500							
Dec	745.00	740.50	-4.85	745.50	725.80	87,738	167,474
Mar	740.45	747.55	-4.90	752.50	732.45	8,154	53,073
Nikkei 225							
Dec	20950.0	20210.0	-730.0	20960.0	20160.0	33,878	179,353
Mar	21000.0	20260.0	-730.0	21000.0	20200.0	30,679	164,145

Open interest figures for previous day.

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TOKYO - MOST ACTIVE STOCKS: Friday, December 6, 1996

	Stocks Traded	Closing Prices	Change on day
Ricoh Co	9.2m	1290	-20
NEC Corp	7.4m	1360	-20
Mitsubishi Hvy	7.1m	919	-25
Matsushita E Ind	6.8m	1990	-50
Hitachi	6.2m	1070	-10
Toyota Motor	6.2m	3180	-50
Fujitsu	5.7m	1070	-10
Fuji Photo Film	5.4m	3810	+60
Daido Stl Sheet	5.1m	1510	-60
Sumitomo Elect	4.9m	1610	-30

4 pm close December 6

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

4 pm close December 6

NYSE PRICES

Continued from previous page

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
73⅛	50½	SchPl	1.32	2.0	20	13629	65½	64	64⅞	-¾
108¼	85⅝	Schlmb	1.50	1.5	32	6338	104½	102¼	102¼	-2⅝
14½	8⅛	Schlr	0.12	1.2	5	405	9⅞	9⅝	9¾	-⅛
32¼	18⅝	Schwab(C)	0.18	0.6	23	6407	29¼	28½	28⅞	-⅛
33⅝	22¾	SchwMaud	0.60	1.9	16	180	32¼	31¾	32⅛	-¼
20⅞	12	SciAtl x	0.06	0.4	75	5240	16⅝	14¾	16⅝	+1
24¾	17	Scotman	0.10	0.4	12	20	24⅛	23¾	24⅛	+⅛
18⅛	12½	ScuddrNAgF	0.02	0.2		408	12¾	d12½	12⅝	-⅛
14⅜	11	ScuddrNEuF	0.16	1.2		268	13⅞	13⅝	13⅞	-¼
20¾	14¾	SeaCoA	0.77	5.0	22	397	15⅝	15¼	15⅜	+⅛
[illegible]										

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
39¼	27⅞	Telmex	0.91	2.9	12	22803	31⅞	30⅝	31⅛	-¾
55⅞	38⅞	Templin x	1.28	2.4	16	774	54⅞	52⅞	54	
21⅞	16⅞	TempltEmMk	0.21	1.1		214	19	18⅝	19	
7¾	6¾	TempltGlob x	0.60	8.3		140	7¼	7¼	7¼	
7½	6¾	TempltGlRt	0.60	8.3		1798	7⅜	7¼	7¼	
23¾	18⅛	TenetHlth			15	5388	22⅞	22½	22⅞	
56½	45¾	Tenneco	1.80	3.5	8	3609	51⅞	51¼	51⅝	-¼
41¾	34⅛	Teppco Pa	3.00	7.4	11	49	41⅝	40⅝	40¾	-⅞
27⅞	11⅛	Teradyne			14	7817	24⅞	22⅞	24⅛	-⅝
9⅝	4½	Terex	0.06	0.6	28	390	9¼	9	9¼	-⅛
15	11	Tesoro x	0.15	1.1	8	785	13⅞	13¾	13¾	-¼
15½	8	Texaco	0.40	2.8	8	322	14⅛	13⅞	14⅛	
[illegible]										

- V -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
69⅞	47⅝	VF Cp	1.44	2.1	27	1023	68¼	66⅞	67¾	-1⅛
30	20¼	ValeE	0.52	1.8		1489	29⅛	28⅝	29⅛	
7¾	5⅞	Valhi Inc	0.20	3.3	29	75	6¼	6⅛	6⅛	-⅛
29⅞	14⅝	ValueHlth			20	1957	18¼	17½	18⅛	
11¼	9¾	VaAmCapMT	0.72	7.0		133	10¼	10⅛	10¼	-⅛
24¾	8¾	Varco Intl	0.40	1.7	48	816	23⅛	22¾	23⅛	-⅛
62⅞	40½	Varian x	0.32	0.7	12	541	49	48	49	+⅛
39⅞	25½	Vencor			18	2055	32¾	32	32½	-⅛
[illegible]										

- W -

[illegible]

- X - Y - Z -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]										
4	3	Zapata	0.14	3.9	10	280	3⅝	3½	3⅝	
25⅞	5⅞	Zenith				8 2741	13	12½	12⅝	-⅜
28⅞	21⅛	Zurich Rei	1.08	3.7	38	10	27⅞	27⅞	27⅞	
7¾	6½	Zweig Inc	0.73	10.1		86	u7¾	7⅝	7¾	+⅛
22⅞	16⅝	Zero	0.12	0.6	18	37	19½	19¼	19¼	-⅛
28	18½	Zurn Ind	0.40	1.5	28	211	27¾	27	27½	-⅜
11⅞	10⅝	Zweig Fund	1.08	10.0		751	10⅝	10¼	10¾	-⅛
9	6¾	Zweig Tot	0.64	10.0		1867	6½	6⅜	6⅜	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. xd-ex-div. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
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AMEX PRICES

4 pm close December 6

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

4 pm close December 6

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

FT GUIDE TO THE WEEK

MONDAY 9

WTO ministers meet

Representatives from 120 countries gather in Singapore for the inaugural ministerial conference of the World Trade Organisation. They seek a path to abolishing tariffs on most information technology products by the year 2000 – the biggest liberalisation package assembled for one industry. Another critical issue is the membership application by China. The Chinese team, led by Long Yongtu, assistant minister of foreign trade and economic co-operation, is attending in an observer capacity but talks with member countries outside official meetings will give the team the opportunity to pursue China's case.

Teddy bear auction

In London, Christie's holds its fourth pre-Christmas auction of teddy bears. On offer are 185, ranging in price from £100 to £10,000. The most renowned is Teddy Edward, star of the BBC TV series, *Watch with Mother*, and the subject of many books. He is being sold with copyright and should make £5,000. The most expensive is a Schuco Yes/No bear of around 1926, which has a dark blue coat and could make £10,000.

Foul air and cruel fur

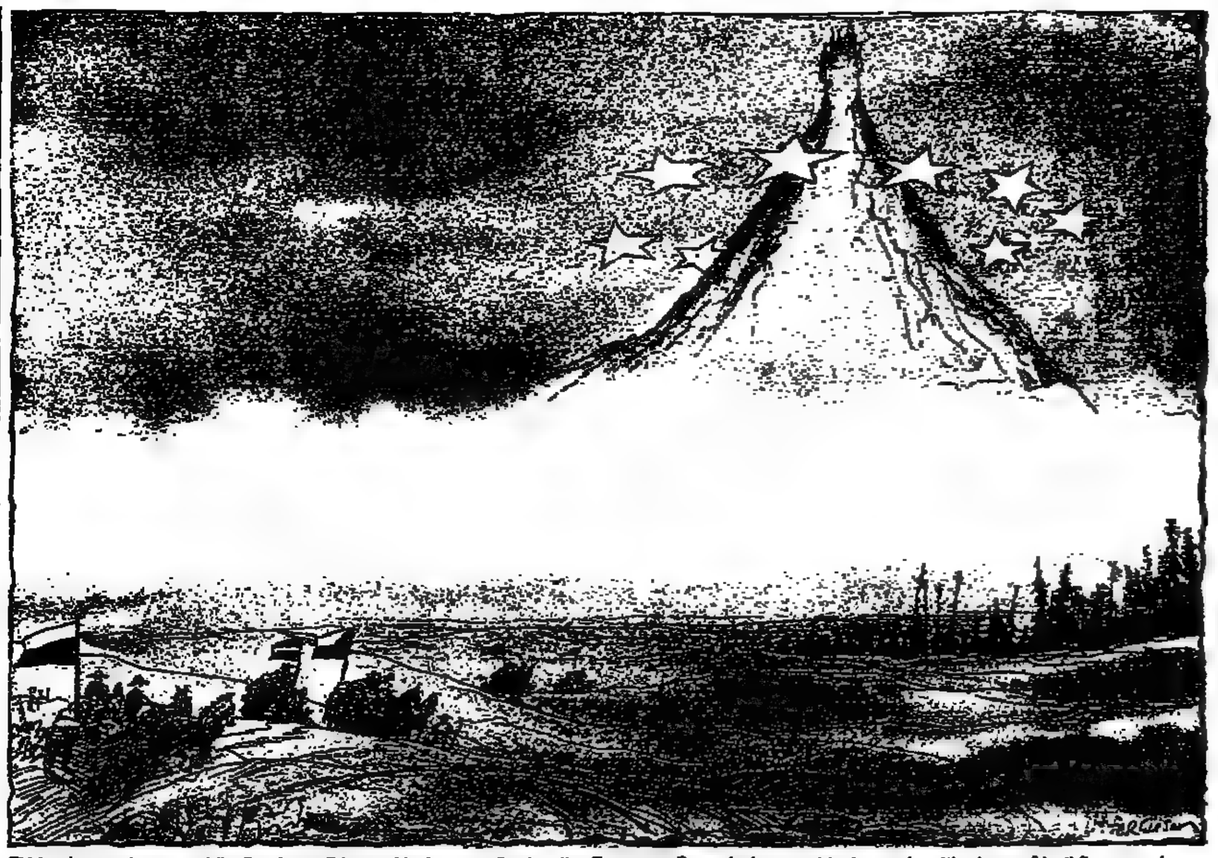
Contentious issues face environment ministers in Brussels for a two-day meeting. Attempts will be made to agree on the European Union's strategy for reducing greenhouse gas emissions, over which member states are deeply divided. The ministers will also be advised of progress in the talks between the EU and the world's leading fur producers to ban leghold traps. The EU has threatened to block the import of furs from animals caught this way. Canada and Russia have agreed a deal with the EU but the US remains opposed to a ban.

Romanian cabinet

The Democratic Convention, the centre-right victor in last month's Romanian general elections, is expected, following weeks of negotiations with coalition partners, to name its cabinet and present its government programme.

Mastering Enterprise

The 12-part Mastering Enterprise series on entrepreneurship continues in the Financial Times, with part four. The series covers every stage from starting a company to building and sustaining entrepreneurial attitudes in large organisations and the public sector. (UK and continental editions only; call 0171 538 1164 or fax 0171 537 3594, price £4 per copy or £30 for the series.)



EU leaders gather at Dublin Castle on Friday with Jacques Santer, the European Commission president, warning "the hour of truth" approaches

FT Survey

Valencia.

Holidays

Colombia, Guam, Seychelles, Tanzania, Venezuela.

TUESDAY 10

Nobel prizes presented

The awards ceremonies for this year's Nobel prizes are in Stockholm and Oslo. The Peace prize – won by Carlos Ximenes Belo, East Timor's Roman Catholic bishop, and José Ramos Horta, exiled spokesman of the East Timorese resistance movement – will be presented in Oslo by the king of Norway. The king of Sweden gives out the Stockholm prizes – literature, chemistry, physics, medicine and economics.

FT Surveys

French Finance and Investment; World Commercial Vehicles.

Holidays

Equatorial Guinea, Namibia, Thailand.

WEDNESDAY 11

Hong Kong ballot

Hong Kong's first post-colonial governor is named, with Tung Chee-hwa, the shipping tycoon, poised for victory. Mr Tung won a majority in a preliminary ballot last month and has since been canvassing support for his bid to lead Hong Kong after it returns to Chinese sovereignty in July next year. The choice will be made in Hong Kong in a secret ballot of a 400-member electoral college, dominated by businessmen and pro-Beijing figures. Pro-democracy politicians in Hong Kong have criticised the selection process but Beijing argues that it is more democratic than the appointment of governors by London.

Millennium decision

The Millennium Commission – set up by the UK government to oversee the distribution of funds from the National Lottery – decides whether to provide £200m ($328m) for the millennium exhibition at Greenwich in south-east London. A business plan prepared for the meeting estimates the total cost of the one-year development at £708m. All the costs are forecast to be met from sponsorship, gate fees and the lottery donations. However, the plan will also recommend controversial proposals for the commission to continue to receive lottery funds beyond its cut-off date of 2000 in order to underwrite the project.

Pay freeze protest

Spain's 2.6m public employees stage a 24-hour strike to protest against a pay freeze ordered for 1997 by the centre-right Popular party government. The walkout will test government firmness following a climbdown last month when militant action by coalminers forced a withdrawal of plans to close down loss-making pits. The strike will affect government offices, schools and some public companies, including the railways and the national airline, Iberia.

FT Surveys

FT Exporter; Broadcast Media.

Holidays

Kiribati.

THURSDAY 12

Dublin overture

EU finance ministers make an eve-of-summit bid in Dublin to overcome obstacles to the German-backed budget stability pact enforcing fiscal discipline among countries joining the planned single currency. The chief difficulty is how to balance German demands for near-automatic penalties against countries running excessive deficits and the rest of the member states' insistence on a degree of political discretion.

NZ parliament reconvenes

The New Zealand parliament reconvenes in Wellington for the first time since the landmark general election in October, when a proportional representation voting system was introduced. No single party secured an outright majority. Coalition talks, under way for two months, are expected to conclude ahead of the opening. There is growing speculation that a centre-right government will emerge – although none of the main parties is publicly confident. If this timetable proves impossible, MPs will elect a speaker and adjourn.

Caribbean co-operation

Ministers from 25 Caribbean Basin countries hold a two-day meeting in Havana to continue efforts towards economic co-operation by breathing life into the Association of Caribbean States. They contend it can be one of the world's largest trade blocks. Members, ranging from St Kitts-Nevis (population 42,000) to Mexico, plan intensified co-operation in trade, transportation and tourism. The US, upset that Cuba is a founding member, has told its dependencies of Puerto Rico and the US Virgin Islands not to accept an invitation to be among 15 "associate" members.

FT Surveys

Kuwait; Cambridge; Prospects for Pakistan.

Holidays

Georgia, Kenya, Mexico.

FRIDAY 13

EU summit in Dublin

EU leaders meet in Dublin for a two-day summit. The main themes will be employment; the blueprint for economic and monetary union, including relations between those inside and outside the single currency zone; and the Irish presidency's draft text for revision of the Maastricht treaty. There will also be a meeting with leaders from central and eastern Europe who want to join the EU.

Saleroom

Two very rare drawings by the greatest artists of the Renaissance appear in Christie's Old Masters auction in London. "A study of a head and hand" by Raphael, a drawing for a figure in his painting "Transfiguration", was part of the Duke of Devonshire's collection at Chatsworth for centuries before it was sold in 1984 for £3.564m. It should go for more. Leonardo da Vinci's "Drapery study for a kneeling figure", a study on linen, sold in 1989 for £3.5m. Estimating demand for such exceptional items is difficult but it, too, should fetch a higher price.

FT Surveys

Warehousing and Distribution; Charity Fund Investment; Madhya Pradesh.

Holidays

Israel, Malta, St Lucia.

SATURDAY 14

Amnesty deadline

Time runs out for members of political groups in South Africa to apply to the Truth and Reconciliation Commission for indemnity from prosecution over human rights violations during the hostilities of the apartheid years. Those who decline to apply face the possibility of prosecution if evidence emerges against them. There will be an amnesty for those who fully confess.

Dinosaur eggs on offer

Phillips, the New York fine art auctioneers, is offering, in a natural history auction, several lots of Martian meteorites, the most complete fossilised dinosaur eggs with exposed embryonic skeletons ever to be discovered, and a jurassic period fossil bird with carbonised feathers. Items for those with smaller purses include a piece of fossilised dinosaur skin with an estimated value of $5,000, and a tyrannosaurus rex tooth, expected to fetch $1,000.

Madonna for Christmas

The film version of the Andrew Lloyd Webber musical, *Evita*, starring Madonna, has its world premiere in Los Angeles. The Walt Disney marketing powerhouse has been promoting what it hopes will be its Christmas season smash, with advance tickets on sale since September. Disney's Hollywood Pictures has, unusually for a big film, chosen to open for two-week runs in two theatres in Los Angeles and New York, starting on Christmas Day. The idea is to create an aura of exclusivity, strong word-of-mouth publicity and, ultimately, mass-market interest.

SUNDAY 15

Mondale going home

Walter Mondale, the US ambassador to Japan and a former US vice-president, leaves his post after three years. During that time, he has helped steer US-Japan relations through difficult moments, including a bitter trade row over US access to the Japanese car market and an upsurge of Japanese public resistance to US bases on Okinawa, the biggest US military outpost in east Asia. Now that relations are back on an even keel, Mr Mondale says he wants to spend more time with his grandchildren. On return to the US, his first action will be to buy a Christmas tree.

Athletics

European cross-country championships, Charleroi, Belgium.

Compiled by Peter Crompton.
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: Kenneth Clarke, the UK chancellor, gives evidence to Treasury select committee of MPs. UK factory gate inflation is thought to have eased last month with raw material costs falling. Mexican inflation is thought to have been little changed in November.

Tuesday: Italian senate begins debating 1997 budget. National output in Switzerland is forecast to have fallen again in the third quarter. The Japanese current account surplus is expected to have declined in October.

Wednesday: UK chancellor and central bank governor discuss possible rise in interest rates. French inflation is thought to have been stable last month while factory gate inflation in the US may have eased.

Thursday: Inflation is the UK is forecast not to have changed last month. Swedish national output growth is predicted to have accelerated in the third quarter.

Friday: Inflation in Spain is thought to have declined a little on the headline annual measure last month but to have edged higher on its core measure.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Nov producer price index input*	-0.4%	0.5%
Dec 9	UK	Nov producer price index input**	-2.1%	-2.0%
	UK	Nov producer price index output*	0.1%	0.2%
	UK	Nov producer price index output**	2.1%	2.3%
	UK	Nov PPI ex-food, drink & tobacco**	0.8%	0.9%
	Canada	Nov housing starts, units		118K
	Mexico	Nov consumer price index*		1.25%
	Mexico	Nov consumer price index**		28.97%
Tue	Japan	Oct machine orders ex power & ships**		3.6%
Dec 10	Japan	Oct machine orders ex power & ships		-10.2%
	Czech	Oct industrial wages, real**		17.0%
	Czech	Oct industrial wages, cumulative**		17.4%
	Neth'nds	Oct producer price index**	2.5%	1.8%
	US	Q3 current account		$35.8bn
	US	Oct wholesale trade		0.9%
	Japan	Oct current account (IMF) not-†	Y400bn	Y457bn
	Japan	Oct trade balance (IMF) not-†		Y758bn
	Japan	Oct foreign bond investment		Y440bn
Wed	France	Nov consumer price index, prelim*	0.1%	0.3%
Dec 11	France	Nov consumer price index, prelim**	1.8%	1.8%
	US	Nov producer price index	0.3%	0.4%
	US	Nov PPI ex food and energy	0.2%	-0.3%
	Canada	Nov raw materials price index (adv)*		0.2%
Thur	Japan	Oct overall pers consumer expend**		-4.4%
Dec 12	Japan	Oct overall PCE (workers)**		-4.5%
	Japan	Oct income (workers)**		1.6%
	Sweden	Nov consumer price index*		0.0%
	UK	Nov retail price index*	0.1%	0.0%
	UK	Nov retail price index**	2.7%	2.7%
	UK	Nov retail price index X**	3.3%	3.3%
	UK	Nov retail price index Y**	3.0%	3.0%
	US	Nov retail sales	0.4%	0.2%
	US	Nov retail sales ex auto	0.5%	0.4%
	US	Nov consumer price index	0.3%	0.3%
	US	Nov CPI ex food and energy	0.2%	0.2%
	US	Dec 7 initial claims		335K
	US	Nov 30 state benefits		2,467K
	US	Nov real earnings		-1.5%
Fri	China	Nov trade balance		$3.13bn
Dec 13	US	Oct business inventories	0.2%	0.1%
	US	Nov bank credit		6.5%
	US	Nov C&I loans		13.3%
During the week...				
	Germany	Nov final cost of living, West*		0.0%
	Germany	Nov final cost of living, West**		1.5%
	Germany	Nov final cost of living, pan-Germ*	-0.1%	0.0%
	Germany	Nov final cost of living, pan-Germ**	1.4%	1.5%
	Germany	Nov wholesale price index*	0.2%	0.2%
	Japan	Nov Tokyo department store sales**		1.9%

*month on month, **year on year, †seasonally adjusted. Statistics, courtesy MMS International.

MONDAY PRIZE CROSSWORD

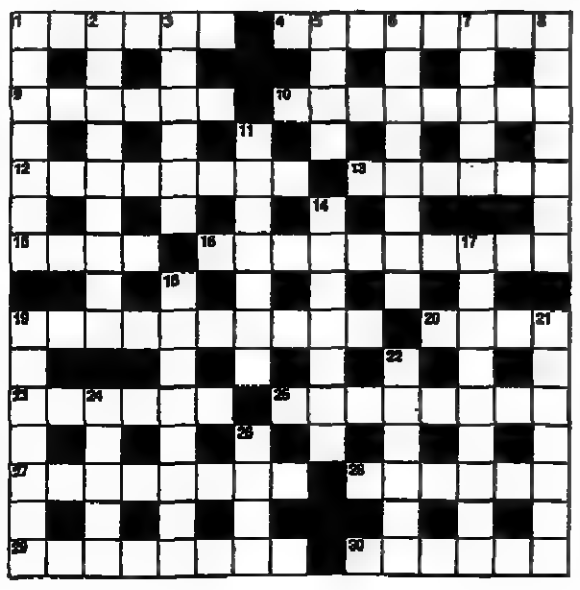
No.9,246 Set by DANTE

ACROSS

1 Gradually descend to procrastination? (6)
4 Nuance obvious to an individual (8)
9 An egg I scrambled, obviously not new-laid (6)
10 Girl's taking position as cashier (8)
12 Get a "No" in, it forms a denial (8)
13 A piece played in a mask? (6)
15 Grass blown in the wind? (4)
16 Devote to rewriting scene or act (10)
19 Fast-service ammunition (10)
20 Mineral in its crystal-clear form (4)
23 It may go down well, but one dies to kick it (6)
25 Herein a peculiar tale, out of this world (8)
27 Runs riot after the beak leaves (8)
28 Its members show appreciation for money (6)
29 High romance? (4,4)
30 Hold up means I'm deep in trouble (6)

DOWN

1 One reaching across for a tool (7)
2 Always go for this type of growth (9)
3 A case for excessive pride (6)
5 Broadcast live coverage (4)
6 To censure or preach perhaps (8)
7 A wild animal but it's all right, a quiet one (5)
8 Eeyore's ghastly sight (7)
11 Capital boom develops after depression (7)
14 Cut off, making one extremely behind schedule (7)
17 Ballet posture of Lincoln in square dance (9)
18 Possibly finding rent a lot but not complaining (8)
19 Tom takes in strip show (7)
21 Unusual glee shown after getting a pass in school (7)
22 Wrongly blamed for the uproar (6)
24 Cornish banker arrived and left (5)
26 Count, first name William? (4)



A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday December 19, marked Monday Crossword 9,246 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday December 23. Please allow 28 days for delivery of prizes.

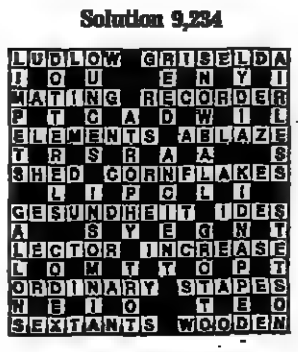
Name.................................

Address.................................

Winners 9,234

Mrs M. Dye, Rayne, Essex
Brian G. Downer, Hamworthy, Dorset
Charles Kennedy, Canterbury
John Macpherson, Edinburgh
E. Morrison, Coleraine, Northern Ireland
C.R.M. Rangham, Islip, Oxfordshire

Solution 9,234



JOTTER PAD

EU and Nato discover togetherness

DATELINE

Brussels: Nato and the European Union may be starting a beautiful friendship, writes **Lionel Barber**

The news in Brussels is that Nato and the European Union have started dating. They are shy about revealing how much they have been seeing of each other, but after several sightings around town, most recently dinner at Chez Marius restaurant on the edge of the Petit Sablon, something serious is afoot.

Remember, for more than 40 years the EU and Nato barely talked to one another. Nato's job was to keep the Americans in, the Germans down, and the Russians out. The EU brought France and Germany together in a common endeavour to spread economic prosperity in western Europe. Both organisations succeeded famously.

But now that the Cold War is over, the EU and Nato have grasped that their civil and military missions are no longer so far apart. The enemy is no longer a Soviet tank column racing through the Fulda gap. The enemy is political instability in central and eastern Europe, the territory running from the Baltics to the Balkans where two wars started this century.

Nato and the EU have promised to open their doors to the central and European countries. But Russia is not happy. Nato enlargement has revived fears of encirclement. EU enlargement does not arouse the same trepidation in Moscow, but it still threatens to draw a line across the continent.

The challenge is to manage the twin enlargements in a manner which reassures the Russians without handing them a veto or a new sphere of influence. Nato foreign ministers will talk about this at a meeting tomorrow in Brussels, and the subject is bound to crop up at the EU summit in Dublin on Saturday when 10 candidate countries from central and eastern Europe turn up for lunch.

So far, no one has come up with a satisfactory answer, but most recognise that the EU and Nato would be ill-advised to pursue enlargement without taking due account of each other's plans and thinking. Which takes us back to the incipient dialogue.

The push comes from the US, which does not have a seat at the EU table. One driving force in Brussels is James Elles, a British member of the European parliament who belongs to that endangered UK species, the pro-European Conservative. Elles heads the Transatlantic Policy Network (TPN), a Brussels and Washington-based group of politicians, businessmen and academics set up four years ago to cement US-EU ties in the post-Cold War era.

Gunnar Riberholdt is one member of the group who has bridged the two worlds. A former long-serving Danish ambassador to the EU, he moved to Nato last year. Others involved include Hermann von Richthofen, the German ambassador to Nato, and Robert Hunter, the US permanent representative. Javier Solana, Nato secretary-general, has also addressed TPN and attended a separate meeting with Hans van den Broek, EU commissioner for enlargement.

After four informal TPN meetings, participants say they are still recovering from mild culture shock. Nato remains an action-orientated organisation suffused with can-do American attitudes, while the EU is a strange superpower, often incapable of making decisions, its economic strength still not matched by its political weight.

Although the two organisations have worked closely on Bosnia reconstruction and are edging closer over the EU's ambitions to create a new "European defence identity", there is a gap in intellectual approach.

Pushed by the Americans, Nato has concluded that it must expand eastwards. The first accession candidates are likely to be named next summer. Depending on whether further negotiations are required and what happens in Russia, the entry date for the first wave of new members will be 1999: the 50th anniversary of Nato.

EU enlargement will take much longer. The European Commission has elated the first date for accession as 2002-2003, after the end of the Maastricht review conference, the launch of Europe's planned single currency, and a new EU budget deal. Entry negotiations are bound to be protracted because poorer, farm-intensive economies will need special transition arrangements before facing the competitive force of the single European market.

The risk is that the US will become frustrated with the delay on the European side. Washington has not declared its shortlist for Nato expansion, but everyone assumes it includes Poland, the Czech Republic and Hungary, and excludes the Baltic states.

That is why the US is lobbying the EU to take in the Baltic states as compensation. The Europeans are non-committal in public; in private, officials say US interference could provoke a backlash, particularly from a neuralgic France suspicious about US willingness to support a common European defence capability under Nato's umbrella.

There is ample scope for mutual incomprehension during the next few months. The cautious courtship between Nato and the EU is more than a useful antidote. It could be the start of a beautiful relationship.

The Monday Profile: Eckart Kottkamp, Claas

Earthman with rare gifts

Eckart Kottkamp could be excused for gazing skywards and pondering how his world has changed. Twenty years ago he was project manager for the European Space Agency's Spacelab orbiting workshop programme. It was, he says, a straightforward job.

But for the past seven months Kottkamp has had a role which is more down to earth and potentially more turbulent. He is chairman of Claas, the venerable family-owned German company which is Europe's biggest maker of combine harvesters.

Following news last week that Agco of the US is negotiating to buy Fendt, another privately controlled German company which is the market leader in Germany in tractors, Claas is Germany's last significant redoubt against the remorseless efforts by big US companies to dominate the global farm equipment market.

It appears that only failure to decide a price, or possibly objections by the German cartel office, can stop Fendt going the way of the other 15 or so independent German tractor suppliers that have disappeared or been swallowed up in the past 30 years. Agco is one of three US companies – the others are John Deere and Case – which are among the top four businesses in the world's $27bn (£16.4bn) a year agriculture equipment sector.

Efforts by Claas to keep the German flag flying in this industry will be very much bound up with Kottkamp, a 57-year-old former communications engineer who joined Claas this year.

As well as a 13-year spell in the German aerospace industry, during which he worked for the Erno contractor which supplied Spacelab modules for US space shuttle flights, Kottkamp has had stints with the Robert Bosch car components group, and at Jungheinrich, the German company which is Europe's second biggest supplier of lift trucks, where he became chief executive.

Kottkamp's good reputation suffered a setback when he was instrumental in taking Jungheinrich into cleaning equipment, and his scholarly manner once caused him to be passed over for the top job at a leading UK automotive parts supplier.

"No one would call him a power player," says a business associate. "But he is a brilliant, long-term thinker who is very sharp on manufacturing techniques and he has the guts to take tough decisions".

Kottkamp will need all these attributes in his new job at Claas, which in spite of its 30 per cent share of the DM3bn (£1.2bn) a year west European combine harvest market is facing some of the biggest challenges in its 83-year-old history.

Claas's main difficulties are its dependence on the European market, which accounted for 90 per cent of its DM1.4bn sales last year, and the high costs of operating its factories in Germany.

While the fastest growing regions for harvesting machines are south-east Asia and south America, the European market has shrunk by about two-thirds in volume during the past 25 years. Few industry observers bet that Claas can hold out very long against a potential purchaser, even though Claas has vowed never to sell out.

But Kottkamp has no doubts about his company's strengths. Its history has given it an unrivalled understanding of the business, and loyal customers.

Second, Claas's profitability (pre-tax profits estimated at about DM95m last year, up close to 18 per cent on the previous year) has given it a strong cash flow and the means to begin a DM45m redevelopment of its harvester line.

In spite of the high costs of Claas's German plants, mostly based close to its head office in Harsewinkel near Hanover, Kottkamp claims his company's manufacturing strengths are second to none. Finally, says Kottkamp, Claas is going all out to build more advanced combine harvesters, the most expensive of which can cost up to DM500,000.

Kottkamp says that in manufacturing, despite the country's high labour costs and onerous regulations covering how factories operate and the hours people can work, an important German strength is the ability to combine ideas. "We are good at putting together all the offerings of the new technologies," he says.

He enthuses about the benefits to farmers of his company's ability to equip machines with systems that measure the physical conditions of crops and adjust the harvesting operations accordingly. "In the past, it might take two hours for a farmer to change over a [harvesting] machine to cater for different crops; now you can do it in minutes."

But Kottkamp cannot help but hark back to his days as a space engineer and consider how his life has become more complex: "In space, everything is the same. On the ground, everything is different: the soil conditions in Ireland, Germany and Sweden will all vary. And you may do all you can [to design a system for maximum yield] – and then it rains." Looking ahead to the storms approaching his sector, Kottkamp must be hoping that his technological and management skills help protect his new employer from getting a soaking.

Peter Marsh

FT GUIDE TO

Copyright and the Internet

I hear that copyright infringement has (at least temporarily) eclipsed cyberporn as the big Internet issue. Is that true?

Copyright infringement on the Net is certainly on the minds of the world's technology industries. This week, representatives of more than 100 member governments of the World Intellectual Property Organisation, a UN agency, are trying to conclude three global treaties so as to update intellectual property rights for the digital era. Their meeting in Geneva, which started last week, has attracted hordes of lobbyists from technology companies.

Who is complaining about copyright?

Cartoonist Gary Larson, originator of "The Far Side", for one. Larson's admirers digitised his complete works and put them on the Net. He sent an e-mail to all of them, asking them to remove the cartoons.

But isn't the Net all about the free flow of information?

The Net community is not entirely happy with Larson – or with other people who have complained about copyright infringement – although several people removed "The Far Side" from their sites. Those opposed to the proposed new rules argue that they would make it illegal just to surf the World Wide Web, the multimedia part of the Net. Each time you access pictures, text or even sound on the Net, your computer makes a copy. That could be interpreted as an infringement of the intellectual property rights that reside in such material.

That's taking things a bit far, isn't it?

Supporters of the new rules say that temporary copies generated by surfing will remain legal. But without stronger protection, they argue, companies would be unwilling to produce new material for the Net. The Net has enormous potential as a quick and cheap way of distributing new and existing software, music, films, databases and so on, but this potential will not be realised unless those who produce material enjoy a proper return on their investment.

Could I digitise the FT and put it on the Internet?

Technically, that would be easy. It would probably take you about 20 minutes using a $200 (£122) scanner. Once loaded on to the Net, the whole world could browse it. By current rules, it is not clear how or whether the FT could obtain redress, but *Playboy* magazine successfully sued a Net bulletin board service in the US for using one of its copyright pictures.

What would happen under the new rules?

It would be the FT's responsibility to watch out for breaches of its copyright, and to approach the Net company that was hosting the site that was carrying FT copyright material. The host would then have to close the site down.

But there could easily be complications. The Net company concerned could be located anywhere in the world, even in a country that was not a signatory of the new copyright agreements. And the companies which provide the links between the World Wide Web and customers' computers are keen to protect themselves from liabilities relating to copyright infringement, as well as libel and indecency. They argue that they cannot be aware of what is passing through their pipelines into consumers' homes.

But I already photocopy articles of FT articles to show to colleagues and customers. Isn't that a breach of copyright?

Yes, it is. You could be hearing from the FT's syndication department. On the other hand, Net freedom fighters argue that people break copyright rules all the time with photocopiers and tapes, but that such breaches are tolerated. Music and film companies reckon there are three times as many copies of their works in circulation as originals. The people who favour Net copyrighting argue that a couple of photocopies is very different from putting something in front of 60m Net surfers. And use of the Net is growing all the time.

What can originators of material do to protect their work?

Hi-tech whizz-kids think they can come up with the answers, and would like this week's meetings to be delayed for six months while they develop new procedures. So far, ways of protecting music and film have been found. Text – from databases, for example – is proving more difficult. Digital watermarks, the electronic equivalent of the watermarks used to help protect banknotes, could be embedded in electronic documents.

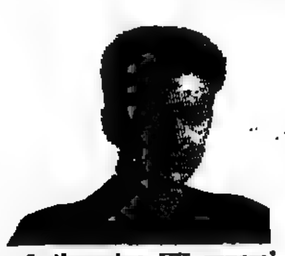
But telling people that copying is illegal had little impact on controlling the copying of videos and music. Encryption and password protection can be used to keep those who shouldn't be there out of your database, but once a paying customer has the information he wants, there is nothing that can be done to stop him making copies.

What will happen at the talks?

If last week is anything to go by, not much. Procedural discussions have occupied most of the time. There are still big differences between countries. Bruce Lehman, US commissioner of patents and trademarks, said Washington was unhappy with the draft agreement to protect databases because it would "lock up facts".

Lehman described the chances of agreeing a deal on databases as "very remote", but the other two treaties are less controversial.

Edward Whitehouse



Robert Chote • Economics Notebook

The flexible truth about jobs

Does falling unemployment mean a more responsive labour market?

In the forthcoming UK general election campaign, Britain's Conservative government will claim to have transformed the country's famously dysfunctional labour market for the better.

The UK's record on job creation has certainly been stronger during the current upswing than it was in the 1980s. But employment growth remains feeble by international standards, and neither government nor opposition is proposing the sort of policy changes which might produce a significant further improvement.

For electoral purposes, the Conservatives will focus attention on the headline rate of unemployment, which should conveniently drop below 2m in the next couple of months. Unemployment started falling three years earlier in this upturn than it did in the 1980s and the jobless rate is much lower now than it was at the equivalent stage of the last economic cycle.

This improvement cannot be attributed to trends in economic activity: in both this cycle and the last, national output rose about 8.5 per cent in the first three years of recovery. The Tories argue that things look better now because they have improved the flexibility of the labour market, perhaps also explaining why the fall in joblessness has produced only a modest pick-up in wage pressures.

The Conservatives have certainly transformed Britain's labour market institutions. Beginning in 1980, a succession of acts of parliament constrained picketing rights, imposed pre-strike ballots, reduced union immunities and virtually outlawed the closed shop. Union membership has fallen sharply.

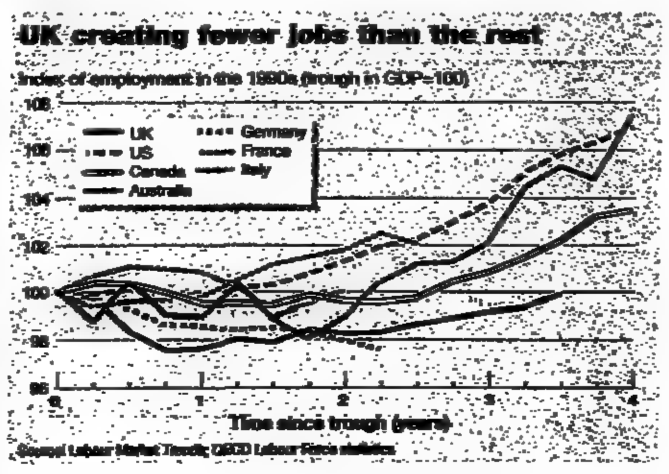
Meanwhile, the government reduced both the coverage and generosity of social security benefits. Minimum wage legislation has been largely abolished, claims for unfair dismissal have been constrained and the unemployed have been forced to jump extra administrative hurdles to remain entitled to benefits.

But how much has Britain's labour market performance actually improved since the 1980s, and to what extent can this be explained by these reforms?

Ray Barrell and Julian Morgan of the National Institute for Economic and Social Research have compared Britain's economy with those of three other Anglo-Saxon countries (US, Canada, Australia) and with those of three continental European ones (Germany, France, Italy).

In the first three years of recovery, the proportion of the working-age population unemployed in the UK fell by 0.24 percentage points a year in the 1990s, compared to a rise of 0.64 per cent a year in the equivalent period of the 1980s. From having the worst record among the seven countries in the 1980s, it has had the best in the 1990s.

But the UK's performance is not as good as it looks. In this early phase of the current recovery, the fall in unemployment was more than accounted for by people dropping out of the labour market. Some did so because they despaired of finding a job, some because they became students, some because they retired early and some because they claimed to be sick.



The UK's record on employment looks very different, although definitive conclusions are hard to reach because surveys of employers and employees paint somewhat different pictures. Barrell and Morgan calculate that the proportion of the working-age population in employment fell 0.14 percentage points a year in the first three years of recovery. This was five times better than the performance recorded in the 1980s, but still poor in comparison with the other countries. Only Canada and Germany performed worse.

So, as the graphic illustrates, the UK's job creation record is no longer woefully adrift of its international rivals, as it was in the 1980s. But the UK remains at the bottom of the heap. The improvement over time almost certainly results in part from the government's labour market reforms. The changes to trade union and employment legislation may have made firms more willing to take on extra workers to cope with rising demand. The changes to the social security system may at the same time have encouraged the unemployed to be more active in the labour market.

But in the wake of these profound institutional changes, why does the UK remain a poor performer compared to the deregulated US labour market and to some European ones?

Relative to the other Anglo-Saxon economies, one problem is that the unemployed in the UK remain without work for longer, thereby reducing both their attractiveness to potential employers and their own motivation. In 1995, the proportion of the unemployed in the UK who had been without work for a year was five times higher than in the US, three times higher than in Canada and half as high again as in Australia.

The tax and benefit system also remains a problem. According to the OECD, a couple with two children, earning two-thirds of the average production worker's wage and receiving housing benefit, would have an income barely 10 per cent higher in work than they would if they were jobless and on benefits. The incentive to take a job on this measure is smaller than in any of the other six countries.

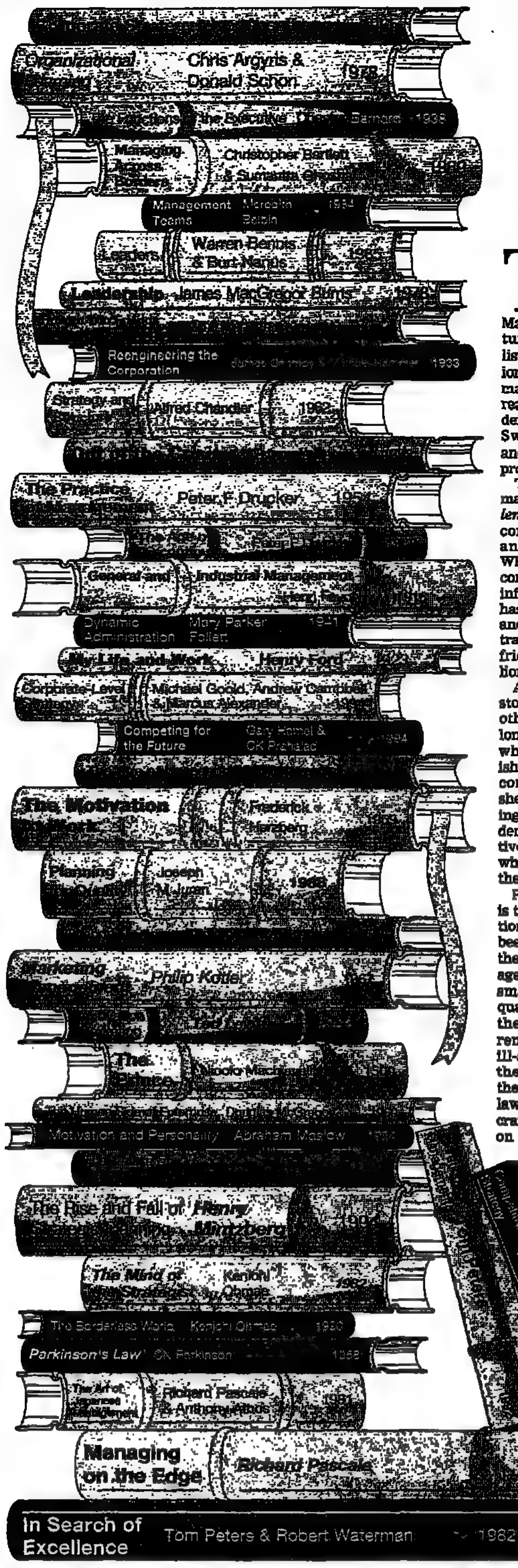
And, in 1994, a single-earner couple in the UK on about half the average production worker's wage would have lost 97p of every extra pound they earned in income tax or reduced benefit entitlements – more than in France, Germany, Australia and the US.

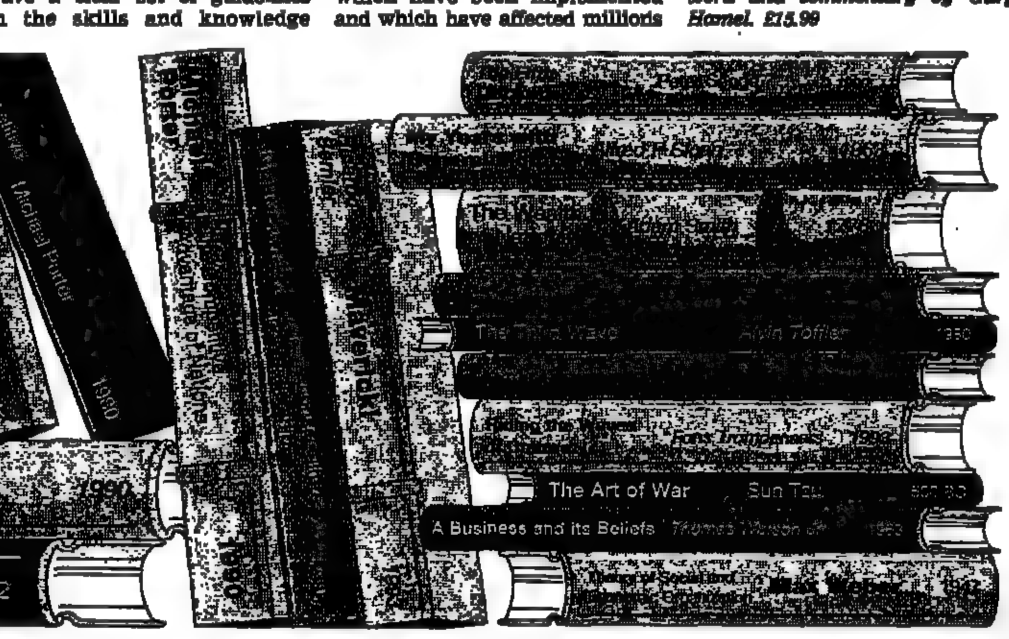
Both Kenneth Clarke and Gordon Brown, the UK chancellor and his Labour opposite number respectively, put great store on reforms which they hope will help people off welfare and into work, especially the long-term unemployed.

But reforming the way the tax and benefit systems affect the low paid and the unemployed is not cheap – and neither man is prepared to confront middle-income voters with a bill big enough to pay for the measures that might make a difference.

R Barrell and J Morgan, International Comparisons of Labour Market Responses to Economic Recovery, Department for Education and Employment research paper, forthcoming.

Fifty books which made management





Fads that speak volumes

Stuart Crainer settles down for a good read of the 50 top business books of all time

The past two decades have seen an explosion of interest in business and management books. Management texts routinely feature on international bestseller lists and the latest fads and fashions instantly travel the globe: a manager in Rutland, Vermont, reads a book by a French academic filled with case studies of Swiss-Swedish conglomerates and expects answers to his or her problems.

The book which ignited the market was *In Search of Excellence* (1982), by two McKinsey consultants, Thomas J. Peters and Robert H. Waterman. Whether it is any good or not continues to be debated. But its influence is undeniable. The book has now sold about 6m copies and Thomas J. Peters has been transformed into the folksy and friendly Tom Peters, multimillionaire and globetrotting guru.

After *In Search of Excellence* stormed into the bestseller lists, others quickly followed. Before long, business books were everywhere. Airport bookstalls banished Harold Robbins to a distant corner and filled their front shelves with the latest outpourings from the consultants, academics, journalists, retired executives, charlatans and scribblers who were all anxious to jump on the bandwagon.

Part of the reason for the boom is the inexorable "professionalisation" of management which has been going on since the 1940s – the transformation of the manager from mere supervisor and small-time dictator to highly qualified executive. Professionals they may be, but managers remain slightly reticent and ill-at-ease with their status: they feel a need to explain themselves in a way in which lawyers and doctors do not. They crave a clear set of guidelines on the skills and knowledge required to become a manager.

Too often the search resembles an indecent race to find the latest bright idea, the one-stop answer to all business problems. Managers buy the fashionable books of the moment and then within months, perhaps weeks, move on to the next fashion. All this is good news for publishers.

Richard Pascale, author of *Managing on the Edge*, is a vehement critic of the enthusiasm for fads and instant solutions. He calculates that more than two dozen techniques have come and gone since the 1950s, with a dozen arriving between 1985 and 1990 alone. He believes this will continue. "I think it is a packaged-goods business. There is an unquenchable thirst."

Sceptics are right to question the practical usefulness of much that is published. Few influential books are written by practising managers, or by women. Books by real managers largely provide proof of why the individuals chose a career in business rather than in the media – they tend to be riddled with egotism and poor writing. There are a few exceptions, such as Alfred P. Sloan or, more recently, Ricardo Semler, but most are written by academics from the leading US business schools.

Critics of business books would suggest that therein lies the problem. Academics and consultants are routinely condemned as being out of touch with reality. In some cases this is undoubtedly true. But the individual experiences of a single executive in a particular organisation are unlikely to provide a rich vein of inspiration for executives in wildly different situations.

Even so, the canon of management literature is full of ideas which have been implemented and which have affected millions of managers. As guru Peter Drucker has observed: "All the great business builders we know of – from the Medici of Renaissance Florence and the founders of the Bank of England in the late 17th century down to IBM's [founder] Thomas Watson in our day – had a clear theory of the business which informed all their actions and decisions."

Look at the part played by W. Edwards Deming in the renaissance of Japan. Think of the impact of Michael Porter's work on the value chain which has been taken up by companies throughout the world, as well as his work on national competitiveness which has altered the economic perspectives of entire countries. Porter has been called in by countries as far apart as Portugal and Colombia to shed light on their competitiveness. Who thought customer service was a key competitive weapon before Peters and Waterman?

And the domain of business books is growing. The authors of *The Witch Doctors*, a tome on the management theory industry, observed the influence on politicians. On his election as leader of the House of Representatives in the US, Newt Gingrich sent his Republican colleagues an essential reading list, including works by seven management thinkers. Bill Clinton, US president, has spent his holidays holed up with motivational gurus, while Tony Blair, UK Labour party leader, sent his shadow cabinet to Templeton College, Oxford, to spend a weekend learning about management theory.

Stuart Crainer is the author of The Ultimate Business Library, *a selection of the 50 greatest management books, published in the UK this week by Capstone Publishing. Tel (0)1235 465500. Foreword and commentary by Gary Hamel. £15.99*

High-flyers: Rory McCarthy (right) and Per Lindstrand

PARTNERS

Lindstrand Balloons

Per Lindstrand, 48, and Rory McCarthy, 36, founded Lindstrand Balloons Limited in 1992. The company designs and produces airships throughout the world. Their annual turnover is £4m. Next month, Per, Rory and Richard Branson, Virgin Atlantic chairman, will attempt to circumnavigate the world in a gas balloon designed by LBL.

Rory: "Per has a tremendous personality, a great sense of humour and a Swedish calmness about him. He's unfazed by the most dangerous things.

He's a genius when it comes to building, designing and manufacturing balloons and airships. Per is a perfectionist with a slightly mad streak, but not like a mad professor. With him it's this amazing attention to detail which I've never come across.

Before we became business partners, I visited his factory one day, just as he was about to do a test flight. He suggested I came along in the basket and use his parachute. I agreed, in my macho way, but what I really meant was "absolutely not". I found myself hanging at 10,000 feet with Per smiling at me: I was hoping he'd say "only joking" but he said "well, go on then".

When I fell away I found the parachute wouldn't open at 5,000 feet, which was one of the most terrifying experiences of my life. Eventually I managed to open it and land safely.

Three hours later, when my tears had dried, Per arrived. "From where I was standing it looked like you'd gone," he said, with a big grin. It turned out the main parachute hadn't been packed properly. I was less amused than him, but we're still friends.

On the round-the-world trip it's very much a student-teacher relationship. I fly my own jet, so I'm not a novice, but Per's the ballooning enthusiast.

The company has projects which will take us well into the year 2000, but this will be my last record-breaking trip."

Per: "I met Rory in 1982, when he wanted to break the hang-gliding record for the highest altitude. I took him under my balloon and he managed to reach 32,000 feet. Unfortunately the weather got so bad we lost him in a cloud of fog and he landed somewhere in Norfolk with a completely frozen jaw.

We eventually found him in a hospital being massaged by three nurses. He was having such a good time he forgot to call me, but that's Rory for you.

He's impatient in that everything has to happen tomorrow, whereas I look after the details and make sure the hinges are in the right place. Like Richard, he's interested in the technology, up to a point, but they've both got ants in their pants.

Rory and I speak about once a month, which usually takes two or three phone calls either way. We don't have time for board meetings. If we disagree it's over what percentage we are reinvesting in the company.

I'm the engineer and designer, so I'll always want gleaming machine-tools wall to wall; Rory's the financier, so he wants a bigger balance sheet.

The arrogance of the 80s, where we produced something because it's good, has gone, we now produce what the market wants. We're about to live in a box for 21 days, hanging at 30,000 feet, so I've no idea how we'll get along. Whenever we're together for more than 10 minutes we invariably talk about aviation."

Fiona Lafferty

The corporate spirit of Christmas

Lucy Kellaway

To: All employees
From: The Chairman
Re: Christmas Party.

I would like to make it quite clear that the following sorts of behaviour will not be tolerated at our Christmas party this year:

- *Fighting*
- *Lewd acts*
- *Sexual harassment*
- *Vandalism*
- *Drug abuse*

Anybody who does not adhere to these guidelines will be summarily dismissed.

As an additional precaution, I have decided to limit alcohol consumption to one glass per person.

I will take this opportunity to wish Happy Christmas to our staff, who remain our most valuable asset . . .

It does not sound particularly festive, does it? But Eversheds, the law firm, is advising its clients to take such steps. In particular, companies should tell all staff what is expected of them, and make sure that employees are not being plied with too much drink. That way employers will have a rock-solid defence when their fornicating, drunken workers subsequently sue for wrongful dismissal.

It is hard to know which is worse: this heavy-handed pre-emptive action on the part of companies, or the annual drunken brawl which they fear makes such action necessary.

I would dismiss it as an example of lawyers trying to get free publicity were it not for the fact that I have sampled one of these occasions myself. In an earlier life in the foreign exchange dealing room of one of the City banks, I attended a Christmas "Medieval Banquet", at which there was all the mead you could drink, buxom wenches, and a fat man dressed up as Henry VIII . . . it was tacky, drunken, nasty: in all, a night to forget.

I now discover it could have been worse. A company called "Celebrity Entertainments" has sent me its catalogue which, in addition to the medieval banquet and a "Fairytale Royal Marriage" party, offers a "Blue Christmas". This features "X-rated girl dancers" and "hunky, sexy gorgeous guys". Any company that chooses to spend up to £60 a head on that deserves whatever is coming to it.

Listening to Michael Hammer duck and weave on the BBC's Today programme last week was a salutary experience. Hammer was asked to explain how it was that the formula in his bestseller, *Reengineering the Corporation*, appears not to work, and that the companies who have re-engineered and fired people appear to be no better off.

Hammer's first line of defence was to say that some companies had applied his term promiscuously, and were actually not re-engineering at all. Furthermore, he said that he wasn't a consultant and therefore had not been directly involved, and added many of those who had genuinely attempted to follow the book had somehow misunderstood it. Firing people had nothing to do with it: "successful re-engineering only occasionally involves laying off workers," he protested.

That's odd, because in chapter two of *Reengineering the Corporation* he defines the term: "Re-engineering means doing more with less." And if "less" does not mean fewer people, I'd like to know what it does mean.

Even more bizarrely, he said that when re-engineering does involve job cuts, "the people were usually hired back two years later when the company started growing again".

Doubtless Hammer would say that I had misunderstood, but the idea that companies could fire and rehire staff in this way does not sound like a "successful" operation to me, call it re-engineering or anything else.

Has somebody high up at McDonald's taken to heart the title of the new management book *Only the Paranoid Survive*? Last week the fast food giant was in court attempting to prevent a hot dog street vendor in Silkeborg, Denmark, from selling under the name of McAllan.

Given that the two names are clearly distinct, that the businesses are scarcely competitors, and that McDonald's is one of the largest companies in the world while McAllan is one of the smallest, the action strikes one as odd, not to put too fine a point on it. The paranoid may survive when their paranoia is properly channelled. But when it involves spending money and time in such a fruitless way, one wonders.

McDonald's protested that it was merely defending its valuable trademark. Harrods said the same last week when it took action against Harrods (South America) which is proposing to sell its brand name at auction. Harrods' court action is understandable. But McDonald's strikes me as a case of rampant, sick paranoia that in the long run is more likely to lead to suicide than survival.

BUSINESS EDUCATION

Victoria Griffith continues an occasional series on the use of technology in business schools

Chipping away at tradition

With the Internet the latest buzzword in management circles, business schools are under pressure to provide cutting-edge technology. MBA graduates are expected to be computer savvy as well as financially sage, and elite schools are responding with a multimedia blitz.

Dartmouth's Amos Tuck School inaugurated a multimillion dollar information technology centre in October; the University of Pennsylvania's Wharton School is developing the third version of its system which lets students retrieve class notes and send in homework electronically; Stanford says it hopes to offer a "paperless" MBA in the next few years; and the Massachusetts Institute of Technology's Sloan School is using the Internet for off-campus learning.

Even Harvard, once criticised for technological backwardness, has made state-of-the-art Internet capability the centrepiece of its resurgence.

At many of the top schools, students register for classes, choose dormitory rooms, renew library books and schedule interviews via computer. Course syllabuses and case studies are widely available electronically, and a few professors even lead class discussions online.

"It's getting to the point that if you don't offer this kind of stuff to your students, you may not be considered an elite business school much longer," says David Upton, associate professor at Harvard.

Wired: students at the Amos Tuck school have a combined computer lab and videoconferencing centre

Schools say the technology is not just good marketing; it means a quantum leap in efficiency. "All the time students used to spend standing in line to hear a tape in the laboratory, waiting for courses to be posted, or checking to see if the library has a certain book, they're now using to learn," says Gerard McCartney, chief information officer at Wharton. "Now they can do all that in a matter of minutes on the Internet."

Visits from real-world executives were always part of an elite MBA education, but trips that once took several days and cost thousands of dollars in expenses can now be accomplished in 20 minutes via video hook-up.

Professors are using Internet programmes in increasingly creative ways. Harvard provides electronic videos to support casework studies, while one finance course at Stanford uses a programme that allows students to see how their investment portfolio choices perform over time.

Yet the multimedia craze has a negative side: the technology can easily cost millions of dollars.

Many schools, moreover, are troubled by privacy and copyright issues. A central question is how much of the material should be shielded from public viewing. "You'd better believe this is a controversial point," says McCartney. "Professors consider their class notes and syllabi intellectual property; if it's up on the Net there's nothing to stop a second-tier school from offering the same course. There's also a lot of privileged information at top schools like Wharton. A CEO may say something to the dean, who passes it on to the students, but if it starts floating around the World Wide Web, the free conversation flow stops."

The trick, say the schools, is to keep certain information under wraps. "We're moving to a mixed use system," says Philip Anderson, associate professor at Amos Tuck. "An outsider may be able to see just the list of courses, an alumnus may be allowed to see the syllabi but not the assignments; students may be able to look at the lecture notes but not each other's homework."

If they can keep costs and privacy rights under control, business schools believe the technology may help them offer a better product. Yet caution is necessary. "This is a tool, but that's all it is," says James Baron, associate dean at Stanford. "It's not a guarantee of a top-grade education."

NEWS FROM CAMPUS

How to practise what you preach

Two academics from London Business School are showing the business world the true meaning of the word "entrepreneur".

Maurice Pinto, affiliated professor in entrepreneurial management and Robert Johnson, lecturer in entrepreneurship, have just become millionaires.

Both are non-executive directors of telecoms group SDX Business Systems. SDX was floated this week with a market valuation of £56.8m, netting Pinto, a Harvard MBA, more than £2m from the flotation and share sales. Johnson scooped £1m.

LBS: (0)171 262 5050

All systems go for finance centre

Thunderbird, the American graduate school of International Management in Arizona, has opened the doors of its International Trade and Finance Centre, which will provide training and research for banks and governments. The centre has been sponsored by Norwest Bank and the Bankers Association for Foreign Trade.

Thunderbird: US, 602 978 7761

Manchester pilots its executive MBA

From January Manchester Business School will be offering a residential executive MBA course, aimed at company employees who want to study without giving up their jobs. The course will involve weekend study at the school.

MBS: UK, (0)161 275 6333

Graduate hand for minority businesses

Minority-owned small and medium-sized businesses are to be given a management fillip with a scheme run by London Guildhall University. Recent graduates who remain unemployed are helping small businesses on a six-month placement. Graduates attend formal sessions at the university once a month and receive a qualification at the end of the course.

London Guildhall University: (0)171 320 1000

CONFERENCES & EXHIBITIONS

DECEMBER 12 & 13
FT WORLD PULP AND PAPER
The fifteenth FT World Pulp and Paper conference will provide a forum in which experts from the industry will provide up-to-the minute information about price movements, supply and demand. At this dramatic time in the industry, no-one involved can afford to miss this chance to examine the issues with key decision-makers from around the world. Speakers will include: Mr John T Dillon, International Paper Company; Mr Arild Nielssen, Canfor Corporation, Chairman, The Canadian Paper Association; Mr H M Mansur, Indonesian Pulp & Paper Association; Mr Martin Glass, EMGE & Company; Mr Philippe Beylier, Arjo Wiggins Appleton plc; Mr Ramsay Hampton, Aylesford Newsprint Limited.
Enquiries: FT Conferences
Tel: 0171 896 2626 Fax: 0171 896 2696
LONDON

DECEMBER 13
Fabian Business Seminar
The Future of the Legal Profession
Speakers: Paul Boateng MP, The Hon Mr Justice Lightman, Geoffrey Bindman, Henry Hodge, Peter Goldsmith QC, James Goudie QC, Ashley Holmes, Maggie Rae, Rodger Pannone, Dr Richard Susskind.
For booking call Neil Stewart Associates on 0171 222 1280/fax - 1278
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DECEMBER 17/18
Introduction to Foreign Exchange and Money Markets
Highly participative training course covering traditional FX and money markets featuring WINDEAL, a realistic PC based dealing simulation. For Corporate treasury, trainee dealers, back office, marketing executives, financial controllers, systems and support personnel plus candidates for Lywood David International Ltd.
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training@lywood-david.co.uk
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JANUARY 7/8
Understanding Treasury Derivatives
Training course covering risks in treasury markets and how derivatives can be used, Currency Options, SAFEs, FRAs, Futures, Interest rate swaps and related products. For Corporate Treasurers, bank dealers and marketing executives, financial controllers, systems and support personnel plus candidates for the ACT Diploma £550 + VAT.
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Fax: UK 44 (0) 1959 565821
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JANUARY 9-10
Understanding Company Reports and Accounts
An in-depth review of the interpretation and evaluation of limited company accounts, using case studies and exercises to reinforce these key skills. A foundation course for those in marketing, lending, credit analysis or research roles. ● The Regulatory Framework ● Accounting Standards ● The Audit Requirement ● Accounting for Groups and Consolidated Statements ● Directors' Responsibilities ● Turnover, Trading Expenses, Pre-Tax Profits, Corporate Taxation, Dividends and Earnings Per Share ● Share Valuation ● Cashflow Statements ● Profitability, Liquidity and Solvency Ratios, 2 Days, £625.
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JANUARY 14
Managing the year 2000 Transition
Companies are only now coming to grips with the potentially devastating consequences of the Year 2000. Mismanaging this transition either from a computing or a business perspective could sound the death knell for a company. Rather than focus on the technicalities of changing computer code this workshop focuses on the managerial issues from both a business and IT perspective, essential to this transition process.
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http://www.butlergroup.co.uk
LONDON

JANUARY 14
Share Schemes and Esops 1997
Leading authorities in this field have combined forces to bring you comprehensive, cutting edge coverage on all the new developments. The popularity of Share Schemes as an alternative remuneration scheme is likely to increase. Attend this timely conference and find out what you should be doing in response to the Chancellor's announcement on non approved schemes.
Contact: Sarah Avian at IBC UK Conferences Limited
Tel: 0171 637 4383 Fax: 0171 631 3214
LONDON

JANUARY 15-17
Introduction to Foreign Exchange and Money Markets
Examines the mechanics of the FX and money markets. Suitable for those new to banking and corporate treasury and trading roles, for corporate bankers, private bankers and other marketing treasury services and for back office and support staff. ● FX: Basic Definitions, Major Influences and Key Players. ● Mechanics of Spot and Forward FX, Basket and Cross Currencies. ● Money Markets: Bank of England Operations, Key Players in the Market, Cash Market Instruments. ● Futures, FRAs, Interest Rate Options, Caps, Collars and Floors, Swaps.
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JANUARY 21
HINWis 97
The tenth annual definitive tax planning conference for advisers to the wealthy. In response to the Chancellor's Budget announcements, the speakers will include coverage of the crackdown on loopholes and the new measures to be introduced as well as last minute pre-election planning.
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Tel: 0171 637 4383 Fax: 0171 631 3214
LONDON

JANUARY 21-24
BUDMA - International Construction Fair
SECUREX - International Exhibition of Property Protection
The largest organiser of trade fairs in Poland and one of the largest in Central/Eastern Europe 15,000 exhibitors from 58 countries and 950,000 visitors in 1995 Poznan International Fair Ltd.
Glogowska 14, 60-734 Poznan, Poland
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POLAND

JANUARY 28
Managing the Corporate Intranet
Intranet technologies are today delivering what open systems and workgroup technologies have promised for almost a decade. This Butler Group senior management workshop will explain what Intranet Technologies are, how they are being used, and provide a strategy for their implementation within the enterprise.
Contact: Butler Group
Tel: 01482 642 700 Fax: 01482 642 691
http://www.butlergroup.co.uk
LONDON

JANUARY 29 & 30
Managing into the 21st Century: The Strategic Development of Tomorrow's Organisation
We all know that to stay ahead of competitors and succeed in the 21st Century our organisations will have to keep up with the latest thinking and rapidly develop, discover, or adapt best practice. *Hear, discuss* and *learn* how leading politicians, academics, think tanks and practitioners from public and private sector organisations are preparing for the future.
Contact: The Strategic Planning Society
Tel: 0171 636 7737 Fax: 0171 323 1692
LONDON

FEBRUARY 3-5
10th Lafferty Cards Conference for Europe & MEA- "Revolving at last - Cards for Profit"
"Shareholder Value Sets the Course", "Revolving Credit after Deferred Debit - the Marketing Challenge of the Century", "What Future for Chip in an On-line Environment?" these are the underlying themes that will be discussed at this major industry event. Workshops will brief you on Cards Law & Regulation, Merchant Services and Risk Management. Speakers from: Novus, GE Capital, Citibank, American Express, ANZ, RBS Advanta, Cetelem, Barclays, Bankeys ... and more. For a full list of speakers and programme details contact Lafferty Conferences
Tel: (+353 1) 671 8022 Fax: 671 3594
AMSTERDAM

FEBRUARY 4-5
Corporate Intranet 97
Companies are increasingly using Intranet technology for their own use allowing employees to share information and collaborate on projects. This major conference and exhibition explores the issues related to the design, implementation and management of these intranets.
Contact: Mick Gaynor
at Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
E-mail: mick.gaynor@business-intelligence.co.uk
LONDON

FEBRUARY 17, 1997
The 13th Annual FT London Motor Conference
This major automotive event will once again bring together an experienced panel of industry speakers, to share their views on the changing relationship between manufacturers and their suppliers. Key speakers include: Professor Garel Rhys OBE, SMMT *Professor of Motor Industry Economics*, University of Wales; Dr Walter Hasselkus, *Chief Executive*, Rover Group Limited; Frans Boot, *General Manager of Group Purchasing*, Volkswagen UK Limited; Nick Evans, *Director, Intelligent Transport Systems Programme*, SRI International; Peter King *Chief Executive*, The Car Group PLC
Enquiries: Sian Fancourt, FT Conferences
Tel: 0171 896 2638
Fax: 0171 896 2696/2697
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FEBRUARY 18 & 20
Doing Business in Ireland
Evaluate the opportunities that Ireland offers you and your competitors' businesses. Profit from a unique gathering of leading managers, entrepreneurs, public servants and professional advisers, outlining a comprehensive 'route map' to achieving business success in Ireland.
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DUBLIN

FEBRUARY 19-20
BPM 97
This is Europe's leading annual conference and exhibition on the use of non-financial performance measures for driving business strategy. An outstanding programme presents some of the world's leading thinkers, practitioners and case studies.
Contact: Mick Gaynor
at Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
E-mail: mick.gaynor@business-intelligence.co.uk
LONDON

FEBRUARY 19 & 20
Financial Services on the Internet: A Practical Guide
The Centre for the Study of Financial Innovation's eight working parties on the prospects for financial services on the Internet will present their conclusions at this major event. Sectors covered: banking, insurance, equity trading and personal finance. Issues addressed: legal, regulatory, security, payment/ settlement and crime.
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FEBRUARY 25-26
The Euromoney International Bond Congress
A unique event which provides an opportunity for all fixed income investors and other financial professionals to meet and discuss market developments. The Congress features a conference and major exhibition with plenary speakers including Eddie George, Governor of the Bank of England, panel discussions and sponsor workshops. Lead Sponsors include: BZW, Commerzbank, Deutsche Morgan Grenfell, ING Barings, Merrill Lynch, Salomon Brothers, UBS Limited and Bridge Information Systems Inc.
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Tel: 0171 779 8394 Fax: 0171 779 8396
Email: euromoney.conferences@dial.pipex.com
QEII Centre, LONDON

FEBRUARY 26
NET LAW: Leading Law into the Millennium
Confidentiality/Obscenity/On-Line rights, Obligations and Liabilities/Current Disputes and Cyber-Litigation. The internet is forcing lawyers into new areas of litigation to develop new arguments and meet novel challenges. The first UK Symposium on Internet law to address the major issues. Aimed at lawyers and mainstream internet professionals. Speakers include: Nick Lockett, Barrister; John Edwards, Sidley & Austin; Nick Higham, Denton Hall; Alistair Kelman, Barrister; Chris Millard, Clifford Chance; Jeremy Newton, Pinsents Solicitors; Nick Lom, Schilling & Lom; Lance Rose and Ernest Sasso, US Attorneys.
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FEBRUARY 27-28
Digital Money & Micro-Payment Tecnologies for On-Line Commerce: Opportunities and Threats
New types of payment technology will kick-start business on the Internet during 1997. Industry leaders from banks, service providers, hardware and software companies, describe the technology development and the strategies aimed at establishing security, confidentiality and ease of use for on-line commerce. Speakers from National Westminster bank, Sun Microsystems, Microsoft, Netscape, HP, Electronic Commerce Association, National Express, Hyperion, DTI, as well as Judith Church, MP, on Labour Party policy.
Contact: UNICOM
T: 01895 256 484 F: 01895 813 095
email: nina@unicom.co.uk
LONDON

FEBRUARY 27 & 28
FT New Media and Broadcasting
Next year's event, the fifteenth in the series, will examine the key issues facing the satellite, cable and terrestrial broadcasting industry going forward into the digital age; the business case for new digital services; opportunities for new entrants; managing the transition from analogue to digital - the marketing and customer service challenge; prospects for digital terrestrial (DTT); broadcasting and the Internet; the radio renaissance - the impact of digital technology on market structure. Enquiries: FT Conferences
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FEBRUARY 27-28
Intranets, Extranets, Legacy Systems and Client/Server: Convergence of Network Architecture
New developments in Network Computer architectures and Thin Clients and the need to retain the value of legacy systems, are leading to the convergence of Intranets and Client/Server architecture. Ovum, Logica, Oracle, Microsoft, Sun Microsystems, Borland, IBM, BT, Barclays, Apple and others discuss the migration of current generation systems to the next generation of network centric computing.
Contact: UNICOM
T: 01895 256 484 F: 01895 813 095
email: sloc@unicom.co.uk
LONDON

MARCH & JUNE, 1997
Two Major FT Metals Conferences
FT Conferences, with CRU International, are organising two major events in 1997. The third annual World Steel conference on 4 & 5 March and the World Aluminium conference, in its second year, on 23 & 24 June 1997.
Enquiries: Sarah Gibb, FT Conferences
Tel: 0171 896 2639
Fax: 0171 896 2696/2697
LONDON

MARCH 10
The Implications of the Labour Party Policy for the Utilities
A one day forum focusing on the future prospects for the Utilities under a Labour Government. How will the 'New Industrial Strategy' affect Gas, Electricity and Water companies? How will they be regulated? How can a windfall tax be justified? Speakers include John Battle MP, Robert Norbury, Richard Morse, David Jefferies, Cedric Brown, Vic Cocker.
Contact: Anne McClean,
Management Forum
Tel: 01483 570099 Fax: 01483 36424
LONDON

MARCH 24 & 25, 1997
World Pharmaceuticals
Next year's annual conference addresses the challenges facing the pharmaceutical majors in maintaining their track record for healthcare innovation. High level speakers include: Dr Franz Humer, Chief Operating Officer, F. Hoffman-La Roche, Dr John L Zabriskie, President & Chief Executive Officer, Pharmacia & Upjohn Inc., Dr George Poste, Chairman, Research & Development, SmithKline Beecham; Mr Derek Smith, Chief Executive, King's Healthcare, NHS Trust.
Enquiries: Sian Fancourt, FT Conferences
Tel: 0171 896 2638
Fax: 0171 896 2696/2697
LONDON

APRIL 15 & 16, 1997
FT World Water Conference
The FT World Water conference presents a unique forum for high-level speakers and delegates to examine the major issues facing the global water industry, as countries are realising the need to improve their increasingly inadequate water supply infrastructure. Whilst many governments seem keen to open up their water industries to outside expertise, the reality of entering these markets often does not live up to its promises.
Enquiries: Sian Fancourt, FT Conferences
Tel: 0171 896 2638
Fax: 0171 896 2696/2697
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APRIL 22-24
The 1997 Conference and Exhibition on Globalisation
The 1st international forum on the impact of globalisation on the securities markets.
Contact: IFex, 27A Elizabeth Mews, London NW3 4UH
Tel: +44 171 483 0350
Fax: +44 171 586 4241
http://www.globalisation.com
Olympia, LONDON

BUSINESS EDUCATION

LANGUAGE COURSES

Razzle-dazzle lures investors

US mutual funds are being sold with hoopla and panache, writes John Authers

Invest in mutual funds (the name for unit trusts in the US) through American Express, and you receive one point under the company's reward programme for every $10 (£5.90) invested.

The programme, introduced earlier this year, marked the first time the concept of loyalty bonuses had been applied to the selling of investments. It was the latest development in an intensifying contest between the biggest financial services companies in the US to sell mutual funds using marketing and sales techniques previously reserved for consumer goods.

Mutual funds, still thought of as complex niche investment products in Britain and Europe, are now sold in "supermarkets". That is because the biggest brand names in US retail finance, including Fidelity Investments, the Prudential, Citibank and Merrill Lynch, as well as American Express, have decided that they need to muscle in on mutual funds, and are prepared to compete on price.

Two factors drive them. First, the huge success of the mutual fund industry during the last few years. Aided by healthy stock markets and by demography, which is seeing the post-war baby-boom generation entering its last decade before retirement, mutual funds have come to dominate the US savings market.

In the last decade they have overtaken thrifts (the US equivalent of building societies), life assurance companies and high-street banks to command the highest share of Americans' savings. So the biggest names in retail finance are determined to get a piece of the action.

A second factor is the concept of the mutual fund "supermarket", introduced two years ago by Charles Schwab, the San Francisco-based discount broker. Schwab's scheme, called OneSource, changed the rules for selling mutual funds by allowing investors to choose a range of funds from different companies and to switch between them – all at no transaction cost.

At the time, it was considered a service that would be used by a few people with investment savvy. In fact, it has been very successful, often attracting more than $1bn inflows per month.

Schwab and its growing army of imitators among discount brokers offer investors a consolidated statement of account, showing them the value of all their holdings once a month. They make their money by charging participating fund companies a percentage of sales. That, detractors point out, worsens value for long-standing investors, but at a typical charge of 0.25 per cent to 0.35 per cent of the amount invested, the funds are still very cheap.

In the US, a front-end "load" of 5.5 per cent of the value of the investment used to be standard.

In the UK, unit trusts carry a similar charge (about 6 per cent), but it is not made transparent, and is instead included as part of the "offer price". UK unit trust management companies do not compete on price, but in the US virtually the entire mutual fund industry now does so.

Fidelity Investments, the largest fund company, now has the second largest supermarket, offering 621 separate funds from 91 different companies without charging transaction fees, and also offers to buy funds which carry a transaction fee for its customers. It offers 3,300 funds in total, from more than 300 different companies, and has attracted about $38bn.

The company says it is responding to consumer demand, and that the service is in the interests of the fund companies: they gain an extra outlet for distribution and their brand name is reinforced by appearing in the supermarket.

Bigger US players are entering the fray. There was a series of launches recently, in all cases offering access to a range of funds with no sales load. All included an element of advice in the package.

This comes at a price, which is kept low, but it gives the products a selling point over the Schwab-style operations. In particular, it makes them easier to sell to consumers nervous of making their own investment decisions. They also come decorated with an array of inducements normally applied to fast-moving consumer goods.

American Express's investment rewards scheme is the most startling example, with one point earned for every $10 invested. Card-users get a point for every $1 spent.

The points pay towards the same range of services offered to card holders – hotels, car rentals and so on. To prime the pump, Amex is offering a point for every $5 invested until the end of this month. A minimum $5,000 investment is required.

Merrill Lynch, a huge retail brokerage in the US, came up with its own concept. Its mutual funds come as part of a package of financial planning services. Customers pay proportionately less, and are offered more services, depending on the size of their portfolios.

Arthur Urcioli, director of Merrill Lynch's private client group, describes the plan as "a breakthrough" because it makes the price of advice negotiable. Clients can either choose their services *à la carte*, paying separate charges for each, or take the fixed service.

He adds that the pricing mechanism removes conflicts of interest between advisers and clients. Having paid a fixed rate, clients know their adviser has no incentive to push them into trades to earn commission.

Another variant comes from the Prudential, the largest US life company, which is unrelated to its UK namesake. It describes its PruChoice service as "a very well-stocked gourmet shop, rather than a fund supermarket". The Prudential offers to waive transaction fees for customers, where such fees apply, charging instead an annual advisory fee of 1.25 per cent.

Birth of a Eurologo

Credit card partners clear up territorial confusion

MasterCard, the international payment card consortium, has reached agreement with Europay, its partner in continental Europe, regarding a new logo to clear up confusion over where its card is accepted.

The new logo will place Europay's Eurocard brand name in white letters on top of MasterCard's traditional interlocking red and yellow circles, and will eventually be displayed in the 3m shops and restaurants that accept the two partners' cards.

MasterCard has been battling for years to improve European recognition. On the continent, it has been eclipsed by Europay's Eurocard brand. In the UK, the local Access brand has dominated. The net result was that MasterCard's brand recognition lagged far behind arch-rival Visa's.

In the UK, MasterCard has bought the Access name from the British banks so that it can kill it off. In continental Europe – especially in German-speaking countries – there has been much greater resistance to the idea of killing off the Eurocard name.

"The people who designed the name 25 years ago did not know that the European currency would one day be called the Euro, but today it's a fantastic asset," says Louis-Noël Joly, chief executive of Europay.

But MasterCard's market research at European airports last year showed that travellers arriving from Asia or north America had no idea they could use their MasterCards in shops with a Eurocard decal.

The result seems like a straightforward blend, but passions ran high during negotiations.

Although the Eurocard name survives, its old logo, a black E with a red tongue, has disappeared. However, banks will have the option of using that logo on the cards they issue, although the MasterCard logo will remain mandatory.

Although the new logo clears the air between MasterCard and Europay about credit cards, the two partners still have to settle their differences about debit cards and electronic purses.

MasterCard plans to reinforce its brand position in Europe by sponsoring football tournaments, including the Uefa Champions League, the European championship and the 1998 World Cup finals.

George Graham

Ad in the News No 8: the Ford Ka

Ford pushes the boat out

In a little over a year, Ford's advertising in Britain has undergone a transformation. *Out* went the shrieking electric guitars, macho John Hurt voiceover and stock winding-road shots of its traditional (and much reviled) approach. *In* came adverts based on a more emotional appeal.

The launch commercial for the new Ford Ka is the most extreme manifestation. There is no mention of the product or its features; no macho voiceover; no laboured explanation of special Ford deals. The ad doesn't even show the Ka.

Instead, we have a shot of a man's toes wriggling in a green field. He points his toes downwards as if pressing an accelerator, and the film whizzes through a succession of cameos: a lighthouse; a yacht adrift in a storm; bees alighting on flowers; autumn leaves fluttering in the forest; a herd of zebras; a man skimming a stone across water. Finally, a man's toes dangling from a boat on a lake. The images flash by, to a weird soundtrack by the American performance artist Laurie Anderson.

The only clue, for those who miss the analogies involved – acceleration, handling, performance, windscreen wipers – is the whispered invitation by an androgynous voice at the end: "Get into the Ka..."

Some call it brave, others foolhardy. But the new small Ka hatchback is an important launch for Ford. Ford would formerly have backed an ad showing a sunrise, or somesuch, with a fanfare.

What is going on? Ford UK's chairman and managing director, Ian McAllister, has woken to the fact that Ford was spending more than £50m a year on UK ads under the "Everything we do is driven by you" umbrella. Result: £50m worth of effort disappeared into the void and the ads themselves were consistently shown up by Vauxhall's work.

With a new team in place at Ford's agency, Ogilvy and Mather, McAllister took the opportunity to sanction a series of ads for the Escort, Mondeo, Probe and Maverick models which concentrates on ideas that are more attuned to the popular culture of the 1990s.

It is too early to say if the gamble has succeeded. Some viewers find the new style incomprehensible, which is why Ford runs a small ad at the end of the break containing the Ka commercial, telling us how to get one. But this advertising stands out from the mass-car crowd. Ask yourself: what Ford ad can you remember from last year? And which model was it advertising?

Stefano Hatfield

هكذا من الأصل

Tom Johnson: "We are not going to be pulled down by any of this new competition"

CNN digs its claws in

Raymond Snoddy meets CNN News Group chairman Tom Johnson

Soon there will be no escape from Cable News Network, the 24-hour-a-day television news service created by America's Ted Turner. CNN services are already on 17 satellites spanning the globe – 20 by next year – but CNN continues to chase an audience wherever one can be found.

Already CNN is available in 22 US airports and Frankfurt will soon be added as the first non-US airport to broadcast the channel. Experiments are under way with Delta, the US airline, to broadcast CNN live on commercial aircraft almost anywhere (planes are being fitted with special antenna). And the Atlanta-based news group is also taking its service into cafés, shopping malls – even doctors' waiting rooms.

For those unable to sit still long enough to watch a TV screen, the headlines (sport, weather, business, US and international news) are being distributed via beepers. These imaginative ventures are symptomatic of intensifying competition in the international news business, and part of what Tom Johnson, chairman, president and chief executive of CNN News Group, says is the third age of CNN.

First there were the struggles of Ted Turner, amid much scepticism, to establish the idea of 24-hour TV news. Then, Johnson believes, there was CNN's coverage of the Gulf war in 1990 which established CNN as a global player that could compete with any other news organisation. Now the challenge – apart from getting into doctors' surgeries – is to regionalise CNN's coverage; continue the process of making CNN International less American; and move into important languages other than English.

Next March the company will launch CNN en Español, a 24-hour Spanish news service for central and Latin America. CNN is also believed to be exploring the possibility of a Hindi service for the Indian sub-continent and it intends to enter new programme niches with CNN/SI, the new sports network planned in a joint venture with *Sports Illustrated* magazine.

"The test is: do these projects work journalistically, do they work operationally, and do they work financially," says Johnson, who was publisher and chief executive of the Los Angeles Times before moving to CNN in 1990.

CNN wants to avoid the problems experienced by the BBC in providing an Arabic TV service for the Saudi-backed Orbit Communications group which collapsed earlier this year in mutual recriminations. CNN has rejected proposals from Saudi groups for a Middle East service because of potential political difficulties.

"If we can't go into a country and operate with independence then we just won't do it," says Johnson, adding that CNN is nonetheless now allowed to report from North Korea and is planning to open a bureau in the Cuban capital, Havana, a venture which is subject to US regulatory approval.

The main challenge the group faces is growing competition. Apart from the US networks, BBC World and no less than nine 24-hour news channels in Argentina alone, there are new rivals to contend with such as MSNBC on the Net, a joint venture between Microsoft and NBC, and Rupert Murdoch's Fox News in the US.

"We expect Rupert to be all over the world with his news. It is a new competitive era for us," says Johnson, adding that he has a mandate from Ted Turner and Turner's new boss, Gerry Levin of Time Warner, to continue building CNN News Group, which had revenues of \$765m (£466m) last year and \$617m for the first three quarters of this year, a rise of 11 per cent.

Apart from receiving backing from Time Warner, CNN is investigating how the journalistic talents of Time Inc and its magazine stable can be harnessed to CNN and vice versa. How can *Fortune* and *Money* magazine, for example, work together with CNNfn, the 14-hour-a-day financial network?

For Johnson, the great uncertainties are the Internet and interactive TV, and how they will affect TV news. There is evidence, the CNN chairman says, that US Net users are watching 20 per cent less television.

Interpreting the data liberally, the group says that on the day of last month's US presidential election, CNN Interactive had 50m hits. But can advertisers be persuaded to pay to climb aboard? Can CNN charge a subscription for its interactive service? Is there a danger of a plunge in journalistic standards towards sensationalism and the mixing of news and entertainment?

"You can't check the Internet. It's there. It's raw. It reminds us of the old J. Edgar Hoover files. You could put anything into it: rumour, false reports, misleading information," says Johnson, adding that he has days of euphoria about the promise of the Net – and days of serious concern.

As Johnson prepares to sign a new five-year contract – covering a period he believes will see full convergence between the personal computer and the TV set – he offers one unequivocal promise for CNN, whatever the technological developments and changes in the style of news presentation. "We are going to stay on the high road of journalism," he vows. "We are not going to be pulled down by any of this new competition."

Tim Jackson

Cash for questions

Not too many high-tech startups can claim to be based on an idea from a stage play. One that can, however, is Six Degrees, a company in Pittsburgh founded this year by a member of the prestigious computer science faculty at Carnegie-Mellon University.

The company's name pays homage to the stage play (and film) *Six Degrees of Separation*, in which a character raises the interesting idea that if you take any two inhabitants of the world, they can be linked together by a chain of five mutual acquaintances.

Merrick Furst, the CMU professor behind the company, drew an interesting business conclusion. He started from the notion that people in business or academia often have problems they want to solve, or questions they want to answer, which would be easy if only they could find the person who knows the answer.

It might, he thought, be possible to build a service on the Internet which makes connections like those in *Six Degrees Of Separation* – creating chains of acquaintances and friends that allow someone with a puzzling question to get in touch with the person who can help find the answer.

To give people an incentive to join these chains, Furst mused, he would need to set up a kind of commercial information exchange in which not only did questioners offer fees to people with answers, but intermediaries could help forward questions for a share of the fee. Last year, Furst and researchers at CMU built software that would run such an exchange, and invited 10 first-year graduate students to try it out.

Each student was given a budget of a dozen sodas with which to pay for answers. Within 10 days, the software package had attracted 100 users, and students began to waylay the professor in the hall asking him how they could buy soft-drink credits to get questions answered.

Furst was so encouraged that he decided to turn the research project into a business. Here is how Six Degrees works in practice. Someone asks a question, offering, say, \$30 (£18.20) as a reward for an answer, payable by credit or by one of the Net payment systems.

The software package (at *http://www.6dos.com*) does some textual analysis to understand the question, and forwards it to people who might be able to help. People who receive the question can junk it or try to answer it. But they can also forward it to someone else, under a pseudonym if they wish, offering a lower fee that would leave them making a small commission on the introduction.

The recipient faces the same choice – ignore, answer or forward. If the question is forwarded six times, and each forwarder takes a 15 per cent commission, the person who gives the final answer will take slightly less than 40 per cent of the total fee.

The questioner can check on the company Web site to see how the chain is progressing, and can raise the price if things are moving too slowly. Someone who has an answer can send the questioner an electronic version of a cash-on-delivery envelope. That allows the questioner to decide whether to "open" the envelope and read the answer.

For example, one questioner in a trial wanted to find a cheap phone service for calling his daughter in Australia. The answerer sent a COD envelope, explaining that it contained contact details for a company offering calls at \$0.33 a minute. That information helped the questioner decide whether to open the envelope and pay. Not all questions will be so clear. One questioner wanted recommendations for vegetarian restaurants in Pittsburgh; another wanted a formula to locate the centre of a sphere from four given points.

What if the buyer opens the envelope, but is not happy? The *6dos* Web site allows questioners to rate answers for usefulness and value, and to say whether they would recommend the person who provided them. It also allows answerers to rate questioners on how hard they are to please. So participants in a transaction can look at each other's track records, and judge whether they want to do business. (The system also gives people an incentive to be reasonable so that others will do business with them in future.)

Furst considered three ways to build a business. One was simply to take a 10 per cent commission off the top of each transaction. A second was to offer the service for use on corporate intranets. That would allow companies to "unlock" the specialist knowledge of their employees, and to give staff an incentive to help each other.

Two US technology companies, Sun Microsystems and Bellcore, are about to use the service on a trial basis, one using a points system, the other using money that employees can use to buy new notebook computers. But Furst believes a third alternative is likely to build the biggest business. He argues that the Web is full of sites whose owners are voracious purchasers of content, desperate to attract users from their competitors. A *6dos* server, he suggests, would give Web sites a real edge.

A crazy idea? Maybe. But Furst has raised enough money from private backers to build the prototype. This time next year, Six Degrees may have created an entirely new market, and an entirely new way of exchanging information.

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Now . . . cyberChristmas

After a slow start, **Victoria Griffith's** plans for a multimedia, interactive Yuletide are taking shape

Not for this reporter the bitter chill and shoving crowds of Christmas. No, this year I'm celebrating a virtual Yuletide, and I am finding that it's a civilized – even cool – way to approach Christmas.

Since the start of this month, my computer screen has been decked out with Internet images of dancing snowflakes, angels and Santa Clans, although my first forays into Christmas Web sites were not exactly encouraging.

First, I stumbled on the terrible rumour (the Net is full of them) that the reindeer had formed a union, then promptly taken early retirement – dismal news indeed.

But a little determination unearthed plenty of holiday cheer. The last word in Yuletide Web sites is *Christmas.com*, which includes a Santa Sightings page. My mood brightened when I discovered that military radar had registered increased signs of airborne activity near the north pole in early December.

International sightings of Saint Nicholas himself were numerous enough to discredit the claims of another page that he did not exist.

Reassured, I swept into full Christmas mode. The first line of business, I figured, was to write to Santa. He has dozens of e-mail addresses on the Web and, considering the weather at the north pole just now, e-mail seemed a more sensible form of communication than post.

I chose to contact the man up north via a site run by the big American toy store chain Toys R Us. If anyone had clout with Santa, I thought, it would be them. I may have been too ambitious in asking for a Jeep Cherokee, plus a parking space. But I was disappointed at the response a few hours later.

Santa complimented me on eating my vegetables during the year, then explained that he could only bring whatever he *could* get on his sleigh. With hundreds of millions of gifts to deliver in a single night, I would not be getting a Jeep.

So I turned my attention to more adult Christmas pursuits. I was delighted to discover I could download free tree ornaments, and printed up a bunch of green and red ones on my colour printer. They came with assembly instructions and look promising, though I haven't quite figured out how to put them together.

Forget caroling through the snow. On the Net, you can sing along with Bing Crosby, the words scrolling in front of you. One fellow cybercaroler has even created a Web site suggesting more politically sensitive names for old Christmas tunes. One new title ought to catch on: *The Vertically Challenged Adolescent Percussionist* is certainly preferable to The Little Drummer Boy.

Sending cards over the Net is a breeze. Just fill in the *cc:* area and hit all your friends and relatives with a single click. Some of my favourite Net cards were by a company called Greets. I chose a picture of two computer hackers saying: "I don't believe it. We've tapped into Santa's computer . . . How much and where do we want it delivered?"

Shopping on the Net may be limited, but there are advantages: America Online offers advice from "gift experts" on what to buy for loved ones. I think AOL's taste leaves something to be desired, though. They thought a green felt hat with a golf ball and flag glued on top would make an excellent present for a golf lover. Instead, I ordered some poinsettias from the 1-800-Flowers Web site.

Christmas wouldn't be Christmas without good will, and surfers can find plenty of worthy causes to support. Just tap into pages like The True Meaning of Christmas to find out how to give to the National Lung Foundation and Toys 4 Tots.

It was not until I stumbled on the Twelve Days of Christmas site that I experienced a true multimedia experience, complete with buried information and links. Granted, the themes were sometimes only loosely connected. By clicking on Partridge, for instance, I got sent to the Partridge Family page. (Remember the 1970s musical television family?)

Information is the real advantage of the Net, they say, and Christmas sites are no exception. Via the Web, I found out how to say "Merry Christmas" in 33 languages, and learned that Santa Clans is called Dun Che Lao Ren in Chinese.

I discovered that Iranian Christians light bonfires, while Christians in India decorate their houses with mango leaves. I plan to stay well away from Czech Web sites, however, where Saint Nick apparently descends on the world accompanied by a whip-wielding devil.

As Christmas day nears, I am starting to browse cookware retailer William Sonoma's site for ideas. And I ought to e-mail some invitations to friends to join me at my Christmas table. But why bother? I have just spotted a site that will host a virtual Christmas celebration on December 25, and there will be no washing-up to do.

Cyber sightings

● The winners of this year's US National Information Infrastructure awards were announced last week. Details of the top sites, and some of the runners-up, can be found at *www.gii-awards.com* with a message from vice-president Al Gore.

● The Salzburg-based Center for International Legal Studies has a simple but effective site (*www2.telecom.at/cils*) with a range of content and details, including internships and fellowships, and a very useful International Legal Resources Directory.

● I suppose it had to come . . . *www.cancel-it.com* is an online cancellation service which allows you to unsubscribe from services that you may have signed up for in a moment of haste –the Sheep of the Month club, for example.

● AGF is one of Canada's largest mutual funds companies. Its site (*www.agf.com*) is well designed and includes a regional events listing for mutual fund investors. The investment calculator shows how an investment in any of its funds would have performed during a specific period.

● The London international direct marketing fair takes place next March. Advance information can be found at *www.directmarketingfair.co.uk* which also has details of the pan-Pacific direct marketing symposium and exhibition.

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Financial Times on the World Wide Web
www.ft.com
Updated daily

Travel News · Roger Bray

Cold war chills

Shivers from the cold war continue to affect business flights to the former Soviet Union. For example, pilots making for obscure airports still have to pick up navigators en route in St Petersburg or Moscow.

The main reason is that many airports were subject to military secrecy, and the relevant charts are not yet available. Of about 1,000 airports, only about 73 have published approach charts. Even if more were available, says Captain Matti Siimmes of Helsinki-based Euro-Flite, they are written in Cyrillic.

The company's business jets are equipped with satellite navigation systems. But navigators could be crucial if planes were forced to divert in emergency.

Alternative airfields are few and far between, and with few airport staff or controllers speaking anything but Russian, it is useful to gave a translator on board.

Bangkok ban

Don't drop litter in Bangkok. With an eye, perhaps, on chewing-gum-free Singapore, the Thai capital's administration has declared war on litterbugs. From this week they face fines of up to 10,000 baht (£247). People dropping rubbish previously faced a maximum penalty of about £50. But the authorities were concerned that fines were not always enforced.

Fly with a friend

Low-cost UK airline Debonair is offering mid-winter passengers the chance to take a companion, partner or friend anywhere on its network for a flat return fare of £50. The deal is available to customers buying tickets in Britain, or to any of the European countries it operates in.

Madras facelift

The Connemara Hotel in Madras was once a town house of the nawabs of Wallajah. It was converted into a hotel by Spencer & Co, which supplied the British Raj with everything from floor polish to cookers. Now the Taj Hotels group has refurbished it, including giving the ballroom and business centre a facelift.

Made in heaven

Airline codesharing agreements come as thick and fast as wedding announcements. Latest to pop the bubbly include United Airlines, which has struck deals with Air New Zealand and Mexicana; and British Midland, which is linking with Gulf Air.

United's arrangement with Mexicana, due to come into force next May if Washington approves, promises improved connections between the US and Mexico. The Air New Zealand tie-up, scheduled for March, will do much the same on routes Down Under.

Peace dividend

A vivid snapshot of the impact sustained peace would have on travel to the Middle East comes in a report by hotel experts Pannell Kerr Forster Associates.

Last year hoteliers in Jordan saw average achieved room rates – the prices paid rather than those published – rise by about 8 per cent in US dollars terms. And occupancy levels were smartly higher.

Stuart May, the consultancy's chief executive, says: "We don't know yet how they have fared this year but it seems logical that recent disturbances in Israel will have set them back."

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
[illegible]	12	12	[illegible]	[illegible]	[illegible]
Hong Kong	20	21	19	19	19
London	5	6	[illegible]	[illegible]	[illegible]
Frankfurt	2	3	3	2	1
New York	3	[illegible]	[illegible]	[illegible]	[illegible]
L. Angeles	19	19	20	20	19
[illegible]	5	6	[illegible]	[illegible]	[illegible]
Paris	3	2	3	2	4
[illegible]	[illegible]	2	[illegible]	[illegible]	[illegible]

Information supplied by Meteo Consult of the Netherlands. Maximum temperatures in Celsius

Executives on the road need to take more care than they think, says **Scheherazade Daneshkhu**

Healthy interest

Dr Richard Dawood likes to tell a story of the doctors at a medical conference in Acapulco, Mexico, to illustrate the dangers of business travel. "Because they did not think of themselves as at work, they got very badly sunburnt during the few hours they had off," says Dawood, who is medical director of the Fleet Street Clinic, a new travel clinic close to the City of London, and editor of a book on travellers' health.

Like many of the City's jetsetting high-fliers – bankers, financiers and solicitors – the doctors had not planned properly for their business trip. "People try and cram too much into a trip because of the pressures of time," says Dawood.

He believes that unnecessary illnesses and discomfort can be avoided by paying more attention to healthcare, and finds it a paradox that many of the City's high-fliers miss out on basic healthcare because their time is at a premium.

"They tend to live far out, and to leave home early and work late. They usually have a family and a local general practitioner but they are loath to go to their GP because it will probably mean taking the whole morning off."

A bit of preparation and attention to the dangers of travel can save a lot of trouble – and eventually time – if illness is avoided.

Without wanting to panic people, Dawood says the dangers of business travel are very real, and underestimated by many people. But knowing about the risks – and what to do if something occurs – can eliminate the dangers, or at least reduce some of the worry.

When I spoke to him, Dawood had just finished tending to a women business traveller bitten by a cat in Thailand and fearful of having caught rabies. "If she had had an anti-rabies injection it would have removed a set of events that have to be dealt with later, such as worry and getting expert opinion."

He also tells of a businessman who recently died from hepatitis A – most commonly acquired by taking contaminated water or food – after travelling in Russia.

Malaria is the most serious infection hazard. It can be particularly dangerous because its early symptoms can be mistaken for 'flu and sufferers can decline rapidly. Dawood says that getting the right advice before travelling does not always mean taking medicine or vaccinations – in fact, it can save people from taking unnecessary precautions.

For example, travellers may not need to take anti-malaria pills in a country designated as a malaria zone if the part of the country they visit is known to be risk-free.

The risk of HIV and other sexually transmitted diseases is also high, judging by the number of new HIV cases in the UK, the majority of which, Dawood says, are acquired abroad through heterosexual activity.

But even minor illness such as a stomach upset can ruin a business trip. "It's easy to say 'Does a stomach upset matter?'" says Dawood. "But if the objective is to negotiate a deal, a trip that justifies a face-to-face meeting does require you to be in good shape physically."

Nor is it enough to assume that because you are insulated in the best hotel in town, the food will be safe. "The flies on your food don't know how much you have paid for it," says Dawood. "People do get a false sense of security when they are staying at such places, but you need to be in charge of your conditions."

His advice is to avoid uncooked foods, particularly salads and fruits without a hard skin. "People think they are being healthy in ordering a salad but a plate of chips and a glass of Coke without ice (rather than tap water) would be much healthier in countries without a clean water supply."

Fruits such as strawberries and grapes are difficult to sterilise and should be avoided. It is safer to slice open fruits with a firm skin, such as papayas, and to eat the inside, which has not been handled.

The hotel buffet, however tempting, should also be avoided because food can become contaminated after standing around for many hours in a warm temperature. It is better to get a meal cooked to order.

But try not to become paranoid. Dawood says travellers should apply a risk reduction strategy relative to the importance of their trip.

Travellers' Health: How to Stay Healthy Abroad, Dr Richard Dawood, OUP, £7.99.

This won't hurt a bit: Dr Richard Dawood at his clinic

Eurostar gets back on track

Eurostar resumed its high-speed train services through the Channel tunnel between the UK and France last Wednesday following the fire which led to the suspension of all services three weeks ago, Scheherazade Daneshkhu writes.

The temporary schedules provide 13 trains a day to Paris and seven to Brussels instead of the 14 and eight, respectively, which the company usually runs.

Eurostar says advance bookings while services were suspended had been low but early indications were that customers would stay loyal. "We are expecting a busy Christmas," it says.

However, Alan Spence, managing director of Surrey-based Britannic Travel, a business travel agent, says few customers were ringing up to book on Eurostar, although he rules out fear as a factor. "A lot of people who were due to travel booked on to flights and do not now want to change back because they have scheduled meetings around their arrival time," he says. "We do not think business travellers will have been put off by the fire and expect demand to come back again in the New Year."

James Myles, London-based managing director of Protravel, a French business travel agent, says that business to Paris was very busy last week following an unusually quiet period in mid-November.

"The market was very unsettled then – people could not get on Eurostar, the planes were full, there was fear of Air France going on all-out strike and truck drivers were on strike. So a lot of travellers thought they would wait until things were more stable and those that could, shelved appointments."

Demand has been buoyant since the resumption of Eurostar services and he doubts that the train's popularity, particularly with regular travellers to Paris, will have been dented. "A lot of people are not prepared to switch from Eurostar to the airlines, particularly regular commuters to Paris who do not want the hassle of going to Heathrow airport unless it is geographically more convenient for them to do so," he says.

American Express says bookings for Eurostar resumed as soon as the service restarted last week and were at 80 per cent of their usual volume through its business travel centre in the City of London.

However, it warns travellers that their journey could take longer than usual and is recommending adding half-an-hour to the Paris journey time and 45 minutes for Brussels.

هكذا من الأصل

ARTS

OPENINGS

EDINBURGH
Masterpieces from one of the world's great private collections of portrait miniatures go on display on Thursday at the Scottish National Portrait Gallery. The 75 miniatures belong to the Duke of Buccleuch and Queensberry, whose collection is, in British terms, second in importance only to the Royal Collection.

NEW YORK
The Duke Ellington and Billy Strayhorn arrangement of Tchaikovsky's seasonal ballet, *The Harlem Nutcracker*, will be staged with new choreography by Donald Byrd at the Brooklyn Academy of Music Opera House on Wednesday.
Beginning with the 1947 New Look (left), Christian Dior gave the postwar period its most important fashion icon of renewal and optimism. An exhibition opening on Thursday at the Metropolitan Museum of Art aims to trace Dior's influence in the renaissance of couture design.

LONDON
Jonathan Miller returns to directing theatre in London this week, with the premiere on Wednesday of his new staging of *A Midsummer Night's Dream* at the Almeida Theatre. The cast, led by Angela Thorne and Norman Rodway (above) as Titania and Oberon, includes David Bamber, Sylvestra Le Touzel, and Doon Mackichan.

BERLIN
Lohengrin is the latest in a series of high-profile Wagner productions conducted by Daniel Barenboim (below) and staged by Harry Kupfer at the Staatsoper unter den Linden. The first night on Sunday features Johan Botha in the title role, Falk Struckmann as Telramund and Deborah Polaski as Ortrud.

WOLFSBURG
An exhibition devoted to 17 young British artists – including the winner of the 1996 Turner Prize, Douglas Gordon (above) – opens at the Kunstmuseum on Saturday. Among the themes explored are the visual world of film and advertising, leisure culture and post-Thatcher economic realities. The show, the first of its kind in Germany, opens on Saturday.

PARIS
The Paris Opeõallet is presenting a pramme of four ballets by Balaıne to Stravinsky sco – *Apollo, Agon, Violin Concertod Capriccio*. This is the perl antidote to the *Nutcrackers* thbound throughout thet of the world.

BASLE
When the Swisrt collector Ernst Vischer-Wler died two years ago, he ɩjeathed much of his estate tosle's public museums. An ɛbition opening on Saturday at Kunstmuseum is dedicated to Vischer-Wadler collectiwhich includes works by PicasLeger, Giacometti andckson Pollock.

The perfect millennium project

Antony Thorncroft argues the case for national museums and galleries to benefit from the lottery

Now that the dust has settled on next year's financial settlement for the arts and heritage it has become obvious that one group has suffered beyond the call of duty (or pre-Election tax cuts) – the museums. In particular, that small embattled trio of flagship institutions – the National Gallery, the Tate and the British Museum – which persists in saying "no" to the introduction of admission charges, has been given less than expected.

For the National Gallery, long held up as an exemplar of a well-run, accessible museum, a projected reduction of 12 per cent in real terms over the next three years, bringing its grant down to £17.6m by the end of the millennium, is a real blow. Director Neil MacGregor (who last week was chosen as Apollo Magazine's "Personality of the Year") refuses to credit the conspiracy theorists who believe that the trio is being punished for not following the UK's other major cultural institution, the Victoria & Albert, down the charging route, but he faces a tough task finding an extra £800,000 to remain solvent. He is looking to sponsors, and ways of boosting income through the shop, publishing and catering, to bridge the gap.

Whatever happens the National Gallery will not impose an admission charge. MacGregor believes that the NG gains financially from an open access policy – it drew in a record 4.5m visitors last year – who spend more in the gallery. In addition many sponsors, notably the Sunley Foundation and now Sir Denis Mahon, who is leaving the NG 16 of his baroque pictures, only support it because MacGregor defends free access.

The probable explanation for the cuts in government grant is that the museums were quite generous to their staff in pay settlements this year: the government is rewarding thrift, those museums that acted tough. Whatever the reason, the national museums face a future of gallery closures, staff cuts, and penury.

Is there a way out? MacGregor thinks that there is, and not surprisingly the saviour is the national lottery. In the arts, lottery money is already being switched from capital to revenue projects through such imaginative accounting ploys as wider access schemes to encourage new audiences, and the stabilisation fund, which wipes out deficits.

Neil MacGregor: a strong advocate of open access policy

MacGregor would like free access to be a condition of museums receiving lottery money: after all, it is the man in the street who, through his tickets, ultimately provides the resources. If, in his last 15 months as chairman of the Heritage Lottery Fund, Lord Rothschild could adopt this approach, ensuring that the fund helps to finance the educational and, ideally, the research work of museums, the money freed could be used to keep them open and accessible. For the NG alone educational work costs £600,000 a year.

There are other palliatives. Museums impose admission charges mainly because they can then claim VAT relief on all their trading activities. Removing the VAT burden would both help solve their financial problems and encourage free access.

Alternatively the lottery-funded Millennium Commission could be be more generous. The problems of the British Museum, where the trustees met on Saturday to consider admission charges, staff cuts, or both, to solve a real financial crisis, have been brought about partly because the Millennium Fund only contributed £30m towards the museum's £94m redevelopment programme, and expects the museum to raise the rest from its own resources.

This means that all the income from the museum's shop, restaurant, publications, etc, goes towards its building programme rather than its running costs. The Tate, too, is finding it hard raising the £30m it needs for its Tate Gallery of Modern Art on Bankside, to which the Fund has given £50m. If the Millennium Fund followed the Arts and Heritage Lottery Funds in expecting just 25 per cent partnership money from its clients, the British Museum and the Tate would be in clover. As MacGregor says "the permanent enjoyment of what people own is a perfect millennium project".

There is one more alternative solution for the museums – a change of government. A Labour government is unlikely to provide more cash, but there could be a definite change in attitude. Free access to museums chimes neatly with Labour spokesman Mark Fisher's plans to open up theatres, concert halls, and opera houses to new and wider audiences by subsiding tickets rather than buildings. The museums that fight against admission charges could find instant relief from a new government. The downside is that Labour is likely to look less favourably on museum's other rising source of income, business sponsorship. Running a museum is a tough managerial task these days.

Bursting with ideas: Jeffrey Segal, James Clyde and David Schneider in Schneider's 'The Eleventh Commandnt' Alastair Muir

Theatre/Ian Shuttleworth

Surreal slice of Jewish humaur

David Schneider steps out of his usual company – the comic fraternity of Armando Iannucci, Patrick Marber and Steve Coogan – to write and act in his first professional stage play. *The Eleventh Commandment* draws equally on Schneider's career in comedy and his appreciation of Jewish culture (to the extent of an incomplete doctoral thesis on Yiddish theatre). It shows a keen comic intelligence in fevered negotiations with the theatrical form, but the ultimate contract struck between the two is something of a fudge.

The play chronicles Daniel Feinman's decision to "marry out" – or, as he corrects himself, to "live in sin out". On the realistic level, this leads to tussles with his mother (Sheila Steafel), who believes that such a move will, in ending the Jewish family line, constitute a Final Solution no less culpable than the Holocaust she survived; Daniel's imagination also provides a couple of under-cover detectives from Jewish Affairs, a *Mastermind*-style inquisition session, and legal counsel from Moses (one of several playful cameos from Jeffrey Segal) – not to mention an updated account of God's covenant with Abraham, sporadic "pieces to camera" from Daniel's Ulster protestant newsreader girlfriend and a small mountain of Tupperware containers filled with food from Momma.

The evening is bursting with ideas, from an after-date session on the sofa in which Daniel (played by Schneider) and Christina consider each move as if playing a game of mechanical chess to a peripheral litany of misfortunes befalling Nicholas Ball's detective inspector. This imaginative fecundity is at once a strength and a drawback. Schneider writes terrific scenes – sketches, in effect – with the surreal vision of a hyper-exuberant early Woody Allen, but you wish that he would remain on one level for more than a couple of minutes and give director Matthew Lloyd a chance to build some kind of dramatic momentum.

Yet, when he makes his serious points towards the end, he does so with the uncomfortable directness of middle-period Allen. Tracey Lynch's under-written Christina is suddenly given an impassic speech about the alluring poweneing a victim; in the next sceneniel's mother sees that bid andses it, so to speak, with an e more ardent statement. Theaassages are poorly integrated ıproceedings.

Whilst the playresses Jewish culture with insighd sensitivity, its main problems ı from Schneider's background ɔmedy. When he reconciles the more smoothly he will be a migy impressive writer; in the mene, *The Eleventh Commandmes* more than serviceable as a : of neurotic Jewish humour.

At Hampstead 'tre, London NW3, until Janu 4 (0171 722 9301).

From obscenity to poetry

We are taken to the lower depths by the two characters of Jim Cartwright's short new play, the lower depths of modern British urban humanity, and we are not released from them during its 47 minutes. *I Licked a Slag's Deodorant*, is bleak, hilarious, and – in most senses – filthy. Four things make it exceptional. Both its two characters ascend from obscenity to poetry; they, the utter dregs of humanity, nonetheless express humanity; they form, without ever having a true conversation, a relationship; and a peculiar type of transcendence emerges.

Cartwright himself directs; the two roles, a man and a slag, are taken by Tim Potter and (at very short notice) Polly Hemingway. He is one of life's outsiders, emotionally stunted, a man of loneliness, a mother's boy whose mother died. "Afterwards I got as I wouldn't go out... Lived off fish-fingers. I got so full of them, I could feel the batter going round in my bowels like gravel, the dead fish stacked against my sunken bones. The wall stared at me, I stared back, but neither of us started anything." He is talking not to the slag, but to us; we never see or hear him talk to her.

She too is emotionally stunted, a lank-haired, wild-eyed, drug-addicted prostitute, haunted only by memories of an uncle's brutality, flatly uninvolved in the frequent sex to which she is well accustomed, coolly used to observing, experiencing or, indeed, inflicting violence. We see her in both her fierce and furious highs and her restless and desperate lows. She talks, mainly to us, sometimes, in later scenes, to him. Now and then, she has to stop and exclaim, "Hang on my mind's gone."

What a pair. Cartwright spares us nothing, and he creates both characters from within. And he makes them lyrical. The man, who tells us in his opening sentences how he licked the slag's deodorant, progresses further: so that he takes a stripper's bra, smears it with the slag's deodorant, and then sits – for maybe a quarter of the play – wearing it on his face like goggles. Ordinary sex never happens between them, but nds up living with her –er the bed to which shengs some of her clientshen the mattress is boug and nearly in my facchink well at least we'nmpany. We talk like rs in bunks, sharing se... I have found m'usty-spring niche. I k life now, I know it e time a full condom hiv face." Only connect – ens above! – only conne

AlastMacaulay

At the Royourt Theatre Upstairs, C, in the former Ambaors Theatre, WC2.

INTERNATIONAL ARTS GUIDE

■ ANTWERP

EXHIBITION
Museum voor Schone Kunsten
Tel: 32-3-2387809
● Het Volk ten Voeten uit – Naturalisme in België en Europa: exhibition focusing on Naturalism in Belgium and other European countries. Representatives of this late 19th-century art movement include Theodoor Verstraete, Jules Bastien-Lepage, Angelo Morbelli, Georges Clausen and Akseli Gallen-Kallela; to Feb 16

■ BARCELONA

CONCERT
Palau de la Música Catalana
Tel: 34-3-2681000
● Thomas Hampson: performance by the baritone, accompanied by pianist Graig Rutenberg. The programme includes songs by Loewe, Schumann, Grieg, Butterworth and Mahler; 9pm; Dec 12

EXHIBITION
Museu Picasso
Tel: 34-3-3196310
● Picasso and the Linocut: this exhibition features 66 linocuts from the collection of the Museu Picasso; to Feb 1

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Akademie für Alte Musik Berlin: with soprano Sibylla Rubens, alto Andreas Scholl, tenor Christoph Prégardien, bass Klaus Häger and the RIAS-Kammerchor perform works by J.S. Bach; 8pm; Dec 10, 11

■ BRUSSELS

CONCERT
Palais des Beaux-Arts
Tel: 32-2-5078466
● Barbara Hendricks: recital by the soprano, accompanied by pianist Staffan Scheja. The programme includes works by Rossini, Debussy, Liszt, Dvorák and Rachmaninov; 8pm; Dec 12

■ DUSSELDORF

EXHIBITION
Kunsthalle Düsseldorf
Tel: 49-211-8996240
● Ana Mendieta. Performance, Foto, Zeichnung, Skulptur – Eine Retrospektive: retrospective exhibition devoted to the work of the Cuban artist Ana Mendieta (1948-1985). Included in the exhibition are slides, photographs, films, and videos of her performances, drawings, and sculptures; to Dec 29

■ GLASGOW

EXHIBITION
The Burrell Collection
Tel: 44-141-3311854
● Treasures of the Warrior Tombs: the Golden Age of the Russian Steppes: exhibition of more than 150 objects from the museums of Rostov and Azov documenting the ancient and exotic cultures of the Ukraine and Black Seas regions dating from the 5BC to the 5AD; to Mar 31

■ LONDON

CONCERT
Barbican Hall
Tel: 44-171-6384141
● London Symphony Orchestra: with conductor Sir Colin Davis, cellist Steven Isserlis and cor anglais-player Christine Pendrill perform works by Macmillan, Schumann and Beethoven; 7.30pm; Dec 10, 11
Queen Elizabeth Hall
Tel: 44-171-9210600
● Orchestra of the Age of Enlightenment: with conductor Frans Brüggen and double bass-player Chi-Chi Nwanoku perform works by Haydn, Dittersdorf and Mozart; 7.45pm; Dec 12
Royal Festival Hall
Tel: 44-171-9604242
● London Philharmonic Orchestra: with conductor Bernard Haitink and pianist András Schiff perform works by Mozart and Shostakovich; 7.30pm; Dec 11

OPERA
London Coliseum
Tel: 44-171-8360111
● Die Soldaten: by Zimmermann. Conducted by Elgar Howarth, performed by the English National Opera. Soloists include Lisa Saffer, Jan Opalach, Jon Garrison and Roberto Salvatori; 6.30pm; Dec 10, 12 (8pm)

Royal Opera House – Covent Garden Tel: 44-171-2129234
● Turandot: by Puccini. Conducted by Daniele Gatti, performed by the Royal Opera. Soloists include Sharon Sweet, Giuseppe Giacomini, John Dobson and Peter Coleman-Wright; 7.30pm; Dec 10, 13

■ LOS ANGELES

EXHIBITION
MOCA at California Plaza
Tel: 1-213-626-6222
● Paradise Cage: Kiki Smith and Coop Himmelblau: a collaborative project between New York-based artist Kiki Smith and Viennese architect Wolf Prix of studio Coop Himmelblau, this installation consists of a group of new sculptural works by Smith of human and animal figures positioned within a dramatic cage-like structure designed by Prix, spanning the 60-foot height of the building's J. Paul Getty Trust Gallery; to Feb 2

MALIBU
EXHIBITION
The J. Paul Getty Museum
Tel: 1-310-459-7611
● The Making of a Hero: Alexander the Great from Antiquity to the Renaissance: this exhibition of 15 works from the museum's collections of antiquities and illuminated manuscripts explores the representation of this legendary conqueror; to Jan 5

■ MUNICH

DANCE
Prinzregententheater
Tel: 49-89-4706270
● Max und Mortiz: a choreography by Peter Marcus to music by Rossini, performed by the Bayerisches Staatsballett; 7pm; Dec 13, 14 (2pm)

■ NEW YORK

CONCERT
Alice Tully Hall
Tel: 1-212-875-5050
● Juilliard Symphony: with conductor Otto-Werner Müller perform works by Handel, Arutiunian and Beethoven; 8pm; Dec 10

EXHIBITION
The Metropolitan Museum of Art
Tel: 1-212-879-5500
● Portrait Miniatures from the Collection of Her Majesty Queen Elizabeth II: explores the art of painted miniatures from its beginning at the hands of Lucas Horneboite and François Clouet to its final flowering in the Victorian era. Hans Holbein the Younger, Nicholas Hilliard, Isaac Oliver, Rosalba Carriera, and Jean Etienne Liotard are among the artists represented; to Jan 4

■ PARIS

EXHIBITION
Musée dArt Moderne de la Ville de Paris
Tel: 33-1 53 67 40 00
● Georg Baselitz: retrospective exhibition of works by the German artist Georg Baselitz. The exhibition features some 80 paintings, sculptures, and a selection of prints from 1965 – 1996; to Jan 5

■ VIENNA

EXHIBITION
Palais Liechtenstein
Tel: 43-1-3176900
● Lucio Fontana – Retrospektive: a retrospective exhibition of the work of the Argentinian-born Italian sculptor focuses on Fontana's famous cuts ("tagli") and perforations ("buchi") from his mature Italian period and numerous figurative and abstract sculptures in bronze and ceramics; to Jan 6

WORLERVICE
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EUROPN CABLE AND SALLITE BUSINITV
(Central Eɜan Time)

MONDAYFRIDAY

NBC/Supıannel:

07.00
FT Busineorning

10.00
Europeanɜy Wheel
Nonstop bverage until 15.0(uropean business ne financial rts

17.30
Financial ' Business Tonight

CNBC:

08.30
Squawk E

10.00
Europeanɪy Wheel

18.00
Financial ' Business Tonight

Percentage football

Clubs are eagerly awaiting pay-per-view television, says **Patrick Harverson**

When the chairme f the 20 football clubs in t English Premier League m in London today one sub t is certain to top the ag a: pay-per-view televisio

Although u r the league's new tele on contract with BSkyB s introduction is still a ast two years away, footb bosses are becoming im ent for pay-per-view and e riches it is expected to g rate.

They see a futu n which millions of fans y £10 a game or £300 a s son to watch their favou team's fixtures, bringin n huge new revenues for e clubs.

The top Englis bs such as Manchester U d, Newcastle United an verpool, which compete gularly with their contin al counterparts, are p icularly keen to see p er-view introduced soo because they fear losing ound to the rest of Euro Clubs in Italy and France already benefiting fro ay-per-view, and clubs ermany and Spain wil ap the rewards next sea

The English cl are also in a hurry to get r hands on the pay-per-v money because they d more funds to pay rapidly escalating wag lls and transfer fees. T hairman of one big club s recently: "The clubs have take the initiative soon BSkyB's waiting to do a ."

So great are expectations surroundi pay-per-view that shares big football clubs have red this year on hopes n early launch. Since anuary shares in chester United, Tottenh Hotspur and Caspian (ow of Leeds United) have al t tripled in value; Che Village shares have dou

Some of these ns have been driven by culation rather than fa Reports have suggested per-view football would eady for next season an t the 20 top clubs would re more than £1bn a yea

But the Pre League and BSkyB ins hat talks on introducing per-view have not starte d media analysts pour c water on forecasts that p rly subscriptions in millions and annual rev s in billions of pounds.

Mr Bradley chell, a fund manager J Investment Manage , which invests widely football club shares, says speculation about pay-per-view has been mostly inaccurate. "Any calculations you make are full of so many assumptions that until there is a clear indication from Sky and the leading clubs about the way things are going it will be fairly meaningless."

No one disputes that pay-per-view television will make the big clubs richer. But the date of its introduction is uncertain, as is the size of the revenues in the early years.

BSkyB plans to launch digital television – the technology that will increase the channels available – next autumn, but full introduction of digital pay-per-view football will probably have to wait until August 1998. BSkyB may experiment with one-off pay-per-view games on its analogue service, probably this season.

Digital subscription growth is expected to be slow in the first year, primarily because the expected high cost of the service may deter analogue subscribers, who will be asked to spend anything from £200 to £400 for a decoder box to receive the digital signal.

The price of the box will depend on whether BSkyB can find a partner to subsidise its initial manufacturing cost of about £500. "It's going to be a great business for BSkyB but the initial success depends on at what price they manage to produce the equipment," says Mr Guy Lamming, media analyst at S.G. Warburg. After buying the decoder, subscribers would pay a further £300 or more to receive a season's games.

Estimates of how many viewers will take up the digital offer in the first year vary from 100,000 to 500,000. Analysts assume most subscribers will buy the service specifically to watch Premier League football.

Subscription rates in the opening year of pay-per-view football in France and Italy this season suggest the lower end of forecasts may prove more accurate. By last week only 34,000 subscribers had signed up for Italian pay-per-view football, a rate which prompted analysts to lower their expectations for the first year from between 100,000 and 150,000 to between 75,000 and 100,000.

Even using a moderately bullish estimate of 300,000 subscribers in the first year, and with each paying an average £300 per season ticket, pay-per-view income for each club would be pretty modest. Assuming the clubs follow the Italian and French policy and split pay-per-view income 50:50 with the broadcaster, the Premier League clubs would be left with £45m between them.

At a little over £2m a club, pay-per-view would add only about 20 per cent to the £8m to £10m a year each club would earn from the existing analogue deal with BSkyB.

However, it is the longer-term outlook that most excites football. Media analysts believe pay-per-view will be firmly established relatively quickly, once the price of decoder boxes comes down and the idea of paying directly for programmes has gained acceptance. At that point, the biggest clubs will be able to tap into the considerable nationwide demand for their games.

Greig Middleton, the stockbroker, has created a financial model for an analysis of Manchester United that calculates that the club's annual earnings from pay-per-view could reach £50m within three years of its introduction. If the money from existing non pay-television deals and income from European matches is added, the club could earn £70m or more from television rights in a few years' time.

That may sound implausible, but Mr David Elstein, the chief executive of Channel 5 and former head of programmes at BSkyB, says broadcasters should not underestimate consumer demand for watching football via what he calls the "celestial turnstile". He believes there is huge untapped potential in pay-per-view. "The public's willingness to spend on sport has barely been tested."

PA

High hopes: Manchester United is keen on pay-per-view

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

Swift decision on post liberalisation needed

From Mr Per Stenmarck MEP.

Sir, Having read your editorial on postal services I would like to offer my comment on the subject ("Slow post", December 2). Like the members of the European Council, the members of the European parliament also have different views on the subject. It is remarkable that most members in the European parliament are positive towards a continuation of the monopolies operating in the postal sector in Europe.

People often accuse the British and the Swedes of slowing down the process of European integration. The French and the Germans are in this aspect the "good guys", working hard for a single currency and other political projects. All in the name of the EU. However, when it comes to liberalisation, the roles are reversed. In the case of postal services, the French and the Germans are the ones who are lobbying the hardest for maintaining the monopolies in the sector. There is no need to remind readers that the French also have been the ones opposing deregulation in the telecom market, railway sector and electricity market.

As you rightly point out in your editorial, the deregulation in the postal sector will not lead to mass unemployment and the decline of rural areas. In Sweden, the privately-owned postal operator, CityMail, now delivers mail in the Stockholm archipelago which is indeed a rural area. The company has also employed around 800 people, mostly young, who would have been unemployed if Sweden Post still had a monopoly on postal services.

We can now only hope for a swift decision by the Commission to implement EU's competition legislation to cover also postal services. This would mean an end to inefficiency in state-owned postal operators and the chance for new companies to conquer the markets. New jobs will be created and the service will improve.

Per Stenmarck,
transport committee,
European Parliament,
97-113 Rue Belliard,
1047 Brussels, Belgium

No sense in scrap directive

From Mr R.G. Loram.

Sir, Your editorial "Scrap directive" (December 5) is a thrust in the right direction but the proposed directive deserves even stronger condemnation. Here are two principal reasons:

● As you point out, more than 75 per cent of an "end of life vehicle" is already efficiently recycled and of the remainder probably some 3 per cent to 4 per cent – mainly bumpers, dashboards and interior trim – could possibly be recycled. But this would be at a considerable cost and no benefit to the environment because of the amount of transport involved. The remainder, textiles, plastic foam, rubber and other plastics are virtually unrecyclable.

● Car bodies are processed through very large metal shredders which also dispose of old cookers, fridges and washing machines and recover the metal from them. These white goods have an even larger proportion of non-metallic parts and one effect of the landfill tax has been to cause shredder operators to lower the price they will pay for scrap metal and even threaten not to accept white goods.

This proposed directive – like the equally ill-thought-out packaging waste directive – has two parents. Its father is the German electoral system which gives the Green party enough seats in the Bundestag to threaten to upset the balance of coalitions. Its mother is the fact that the European Commission, having formulated all the sensible directives, has now run out of things to do and has resorted to formulating some nonsensical ones. The UK government should not sign up to this directive.

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No option but to provide aid in Zaire

From Ms Emma Bonino.

Sir, I have read with interest Michela Wrong's article criticising the role of humanitarian aid in the Great Lakes Region ("Killing with kindness", December 3). For the sake of keeping open a healthy debate on this delicate issue, I would like to offer a few comments, from the perspective of one of the world's largest donors of humanitarian aid, Echo (European Community Humanitarian Office).

Let me say from the outset that I am not joing in any breast-beating about the way we have allocated our funding. Saving lives and alleviating human suffering is a universal value itself and is never a worthless exercise.

On the other hand, humanitarian aid can never, ever, be a substitute for political or military solutions to complex crises. As far as the Great Lakes crisis is concerned, the humanitarian community has unstintingly tried to draw the attention of the international community to the absolute need for a political settlement to defuse the conflict.

It is not the job of humanitarian organisations, administering aid to the needy, to double up as military strategists, or to sort out who's a genocidal killer and who is a "real" refugee. Killers must be brought to justice; we have said this over and over again for more than two years. But I do not see what the alternative to providing aid could have been in the refugee camps of east Zaire. Non-governmental organisations and agencies did not create the needs there, they just did what they had to do. Should we have abandoned the refugees to their fate? And if so, when?

Humanitarian aid operations have certainly expanded dramatically recently. But it is too simplistic to say that aid agencies have cynically abandoned development for more glamorous emergency work for which money flows more freely. The fact is, crises involving conflict in which development is crushed and civilians are the main victims have proliferated. We have simply helped to feed people in need, while the world's indifference continues to feed crises. Emergency aid replaces development in places (such as Somalia and Liberia) where development policies are no longer possible.

We should all try and learn the lessons of ongoing crises in the Great Lakes and elsewhere amid this modern butchery of people, principles and international conventions. Are politicians and diplomats learning their lessons too? We are right to be concerned about civilians whose plight we could not witness because access to them was denied in a massive violation of human rights. They are pawns in a war between totally unaccountable forces.

I am still convinced that a multinational force is absolutely essential to oblige warring factions to give access to those people, however many or few they may be, however many or few square miles we are talking about. If that sounds strident, so be it.

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Santer out of touch with opinion in the UK

From Mr Keith R.A. Lord.

Sir, In characteristically out of touch fashion, Jacques Santer, president of the European Commission, announces that the City and the Confederation of British Industry will force the government's hand and with it the UK into Emu ("'Irresistible' pressure on UK over Emu", December 2).

If the City is so in favour, why, after a packed recent debate at the Stock Exchange, did members of the Securities Institute vote against the UK's entry?

And sorry Jacques, when it comes to the captains of industry, my understanding is that it is present policy to express no official opinion one way or the other.

Could it be that practitioners are able to see through the tawdry political fudge and mudge destined to end in tears for the "euro"? Or is it that informed industry and City opinion is at one with the country's mood, so often lambasted by Emu protagonists for being knee-jerk and uninformed?

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A crisis also

From Mr Paul Cohn.

Sir, Reading "The only country that gets it right" (November 30) by James Morgan made me laugh.

Holland (or The Netherlands) is stone cold, traffic jams are a daily nuisance, local and country government officials make work and private life a misery most of the time, environmental regulations are often ridiculous and Ajax is in a crisis without a win in six games.

How bad the other countries must be!

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It is wrong to rely on rising share prices, argues **Tony Jackson**

Nothing lasts forever

The scene: a wine bar in the City of London where a group of stockbrokers is having a genial pre-Christmas lunch. The talk, as usual, is of the market. There is too much money around, one broker says: shares are heading for a fall. His neighbour, as if to prove the point, is passing round photographs of his new sports car and yacht.

The brokers do not let this spoil their lunch. After all, they have been here before. The market is prone to occasional setbacks: some of them, as in 1987, quite alarming. But they all prove interludes. In the long run, the market always carries on up.

Or does it? Though the bull market sometimes seems a fact of life, it actually dates back only to 1982. In those 14 years, it has had profound effects on the thinking of corporations and the agencies which serve them. When share prices stop rising, as eventually they must, some of that thinking will have to change.

Consider how much managerial behaviour is posited on a rising market. If shares had been flat or falling for the past 14 years, as they were for the previous 14, would corporations still put the same stress on shareholder value? Would they still reward so many workers with stock? When cutting jobs, would they still target the over-50s, who can be paid off from the swollen coffers of the pension fund?

To say the fat years must come to an end is not a market judgment, but a logical inference. Since 1982 Wall Street – the engine for most other equity markets round the world – has seen the Dow Jones index go from 1,000 to 6,500. The bulls predict 10,000, and for all one knows, they could be right.

In the long run, though, share prices can scarcely rise faster than corporate earnings, on which they are based. In turn, it is hard to see how earnings can rise faster than the economy indefinitely. If they did, the owners of capital would end up crowding out workers and customers and taking the whole economic pie.

Since 1982, the Dow has risen at just four times the rate of the US economy. This need not mean the market is overpriced. One could argue that in 1982, after 17 years of real decline, US equities were seriously undervalued.

> It is scarcely surprising that the past 14 years have seen an explosion of services designed to support and feed off the share price

The point is rather that the market's *rate* of climb in the past 14 years has been an anomaly. Despite that, it has come to represent business as usual for a generation of management.

In the US and UK especially, a company's share price has come to represent one of its most crucial assets. Besides its effect on the corporation as a whole, it has the most intimate relevance for top executives. Through the granting of share options it represents their best chance to become multi-millionaires.

Increasingly, too, companies reward line managers with shares as a means of spurring them to greater efforts. This only works if the stock is an appreciating currency. In a falling market, it is of limited comfort to a manager that thanks to his hard work, his shares are falling by less than the average.

Most fundamentally, the bull market has encouraged managers in the belief that their primary function is to produce value for shareholders. Doubtless, the idea has independent validity. But it plainly has more appeal at a time when the market is delivering value automatically, rather than subtracting it despite managers' best efforts to the contrary.

Given all this, it is scarcely surprising that the past 14 years have seen an explosion of services designed to support and feed off the share price. Within the corporation, the investor relations function has moved towards centre stage. Outside it are gathered a host of advisers and consultants, from investment bankers and corporate brokers to financial public relations executives and investor relations advisers.

And, of course, the long bull market has transformed the business of asset management. It is thought-provoking to compare the humble status of fund managers in 1982 with their exalted position now. In those days, pension and insurance funds were not so much a source of profit as a store of value. Fund managers were there to keep an eye on things, and paid accordingly. They may be so again.

The same could apply to investment bankers and stock analysts. A senior Wall Street executive recently remarked privately that he was finding it impossible to stop top salaries rising in his organisation: however, he was having some success in attacking wages in the middle bracket – say, around $700,000 (£430,000).

To the rest of the planet, it might seem impossible that an indifferent analyst or dealmaker could be worth that kind of money. In the long run, so it is. MBA graduates from the US business schools still put down investment banking as one of their favourite options. It might pay them to consider, as they fill in their application forms, how long the good times can roll.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Monday December 9 1996

Wall Street's insouciance

A sign of a frothy market is, perhaps, a tendency to overreact to passing comments by central bankers. But a sign of a seriously overheated one is a willingness to brush such warnings aside.

On this basis, last Friday's market reaction to the remarks the evening before by Mr Alan Greenspan, chairman of the Federal Reserve, offers a cautionary lesson. Asian and European markets reacted strongly to his comments; the US, at which they were directly aimed, budged scarcely at all.

Most European share price indices fell by more than 2 per cent on Friday – Germany's DAX fell by more than 4 per cent. Asian markets were similarly affected. But the Dow Jones Industrial Average fell by 0.86 per cent and the S&P 500, the yardstick of US blue chips, dropped by only 0.64 per cent.

Does this mean that, while other equity markets are merely frothy, Wall Street has passed beyond that into the empyrean self-confidence of a true market top? It depends on whether Mr Greenspan's warnings deserve to be taken as seriously as the rest of the world's investors appear to believe.

His comments can be boiled down to three points. First, the monetary aggregates, which in recent years have proved an unreliable guide to the pressures in the economy, may now be regaining their predictive power. Second, the prudent central banker watches asset price inflation as well as rises in the day to day cost of living. And third, the Fed would be unperturbed by a financial crash, like that of 1987, which had no impact on the real economy.

Money supply

All three statements could be taken as harbingers of a rise in interest rates. The first suggests that if the money supply is seen, once again, as a relevant indicator, its recent above-target growth will strengthen arguments for a rise in rates.

The second argument, explicitly based on Japanese experience, suggests that an economy may be overheating, in some fundamental sense, even if the normal consumer price indices are well under control. Mr Greenspan is serving notice that if "irrational exuberance" is indeed pushing up asset values unduly, the Fed would be prepared to act. That would almost inevitably mean tighter money – and, as Mr Greenspan's third point indicates, the Fed would be relaxed about any sharp market correction that resulted.

The different reactions of investors in the US and abroad to this possibility reflects the differing moods of the two groups. International investors have viewed US equities as seriously overpriced for years, stepping back into the market only grudgingly in recent months.

Summer setback

US investors have, if anything, gained confidence in the fundamental value of their market after it has shrugged off the early summer's setback in high-tech stocks. They have also remained unconcerned by the likelihood that US interest rates will rise sooner rather than later. Indeed, in late summer the equity market recovered its poise even though a rise in rates then appeared almost certain.

Does the re-emergence of this possibility threaten the current level of US stock and bond markets? Wall Street bulls can – and do – put forward many reasons for remaining confident, even in the face of a precautionary rise in short-term rates.

Perhaps this lack of concern is itself the biggest reason to worry. The bears of early summer have been put to flight; confidence, even complacency, reigns. Probably Mr Greenspan's warnings are no more than a statement of central banking prudence. Probably they indicate no more than the medium-term rise in interest rates the markets are already discounting. Probably the US market's judgment was right last Friday. And yet, and yet... No one wishes for a panic. But it might have been perversely reassuring if the markets had shown a little less insouciance.

The Tories' last chance

Mr John Major's attempts to rebuild the authority of his administration have become a recurring theme of his premiership. During the past few years, his repeated calls for unity have earned Mr Major only the briefest of respites in the Conservative civil war over Europe.

So in one respect, the prime minister's lengthy interview with Mr John Humphrys on BBC television yesterday was simply part of a familiar pattern. The initial, dismissive reaction of his party's Eurosceptics suggests that its impact may turn out to be as short-lived as that of its many precursors.

But this time it is different. If Conservative MPs retain any residual hopes of making a contest of the forthcoming general election, they will realise it. In an impressive and entirely rational reassertion of his government's policy towards the European single currency, Mr Major has offered his party a last chance. If Tory MPs decline to take that chance, Mr Tony Blair's Labour party seems certain to win power by default.

The circumstances are different because the election is now at most five months off. It may come sooner than that. The loss of the government's majority in the House of Commons means that the prime minister can no longer be sure of holding on until early May. Mr Blair is unlikely to force an immediate confidence vote, but the government cannot be certain of the support of the Ulster Unionists.

Bitterly divided

Even if Sir John Gorst, the disenchanted Tory MP who withdrew his support last week, were to return to the fold, pending by-elections will ensure the government remains in a minority. And, for as long as the party is so bitterly divided over Europe, it will continue to face a succession of humiliations on other issues. Without the habit of discipline on the backbenches each stumble at Westminster will escalate into a crisis.

During the storms of the past week, Mr Major's Eurosceptic critics have made two demands: he should rule out participation in a single currency for the lifetime of the next parliament and he should replace Mr Kenneth Clarke as chancellor.

In his interview, Mr Major convincingly and comprehensively rejected both demands. He explained at length why it would be folly for any British government to leave an empty chair at the Emu negotiating table. Stressing his determination to pursue the national ahead of his party's interest he rightly rejected as inconceivable the notion that the government should not play its part in Europe's most important peacetime decision. Whether sterling eventually goes in or stays out, Emu will have profound effects on the European economy and hence on Britain.

Britain's option

Mr Major added the caveat that he would seek to prevent any fudging of the economic convergence criteria by other European governments. If Emu were built on such shallow foundations, there was no prospect of sterling joining. But, to the dismay of the sceptics, he acknowledged that any manipulation of the terms would not be apparent until 1998 when the first wave of entrants is chosen. There is no excuse there for closing off Britain's option.

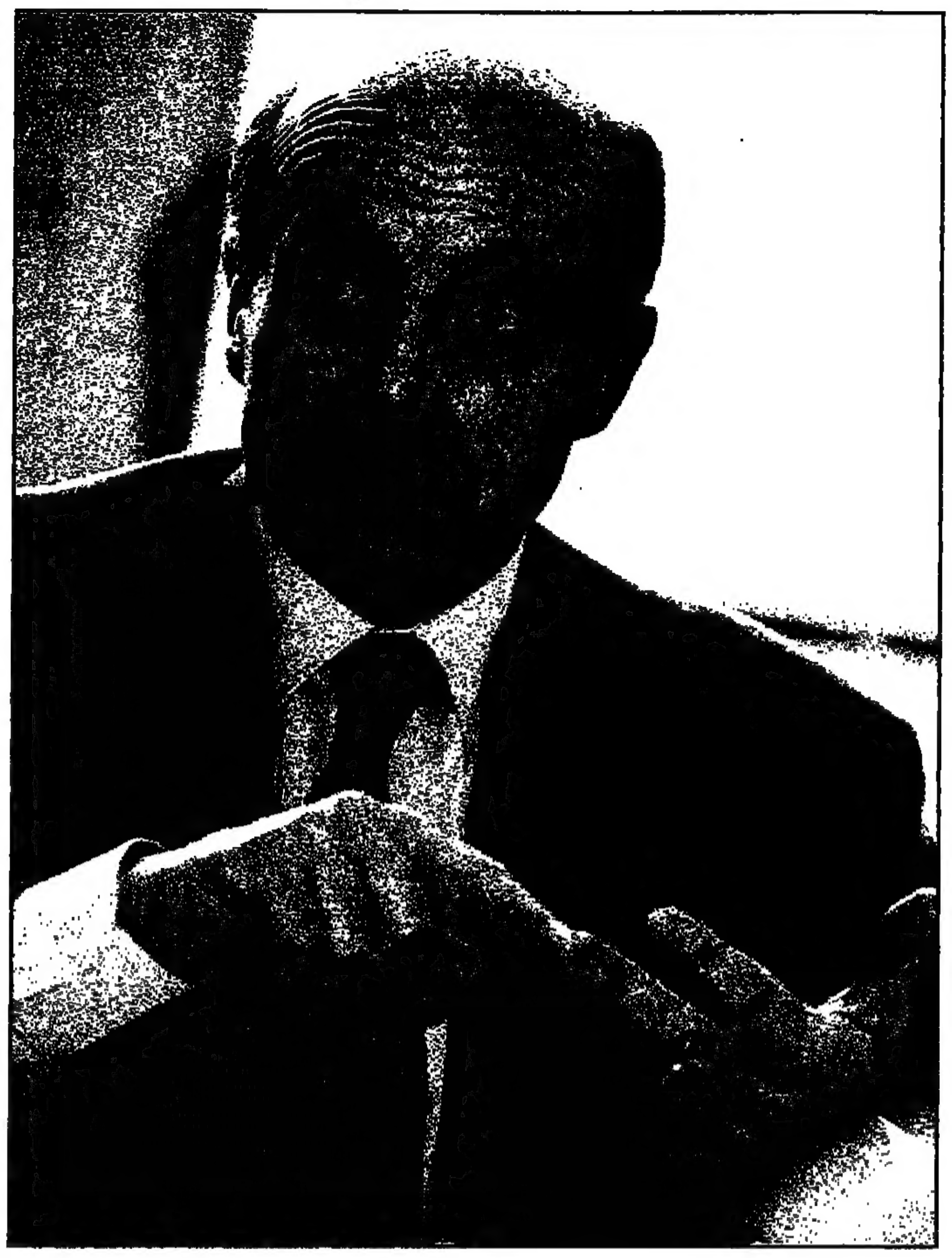
The prime minister was equally robust in defence of Mr Clarke. The chancellor is sometimes indiscreet but he is a towering figure in a government which has precious few heavyweights. As Mr Major remarked, Mr Clarke's adroit management of the economy has also brought sustained growth alongside subdued inflation.

That economic background should provide the conditions for the Conservatives to present the voters with a serious choice at the election. But the electorate will not support a party which puts its own internal squabbles ahead of the national interest. Perhaps he had left it too late, but Mr Major has provided the Conservatives with a lead. They should take it, or look forward to continuing [illegible] civil war in opposition.

The FT Interview · Alain Juppé

France's shock absorber

The embattled French premier tells David Buchan, Andrew Gowers and Quentin Peel of his plans for economic recovery



Saturday morning in the Matignon. Relaxed in designer jeans, jacket and tie amid the 18th-century gilt, Alain Juppé betrays no hint of perturbation about the mountainous challenges he faces.

In little more than a year, the French prime minister must steer his country into economic and monetary union (Emu) and his centre-right coalition to election victory. Can he do both? "This is my double objective," he says.

France, he confidently predicts, will make its rendez-vous with Germany in Emu. He is well aware of the stakes: "I don't want to be immodest, but I think France is the key. If France is not ready in time [to enter Emu in 1999], there will no Emu for a long period."

And the spring 1998 parliamentary elections? To win, he has to shake voters out of what he describes as the electorate's chronic mood of gloom and reduce record unemployment. "I am confident we will succeed," he said.

How can this be? In his first 19 months of power, Mr Juppé has plumbed the depths in the opinion polls: attracted fierce criticism from his government's own backbenches and suffered waves of strikes. Last week his first attempt to privatise the Thomson electronics group failed.

But Mr Juppé says in the French system headed by the president, "the prime minister is there to absorb a certain number of shocks". The criticism does not faze him.

"When I don't change the decisions I've announced, I'm accused of being arrogant and stubborn. When I modify them to take account of people's reactions then I'm charged with retreating. Either way I'm criticised."

But what about his unpopularity in the polls? "I don't know. Everyone I see is very nice and polite... I don't feel rejected, the mail I get encourages me. So I end up wondering whether the polls really reflect the reality."

Accurate or not, the polls have undoubtedly encouraged critics within his own political camp, comprising the Gaullist RPR and the centre-right UDF federation.

"Some have called for my replacement, but always from the wings, never from the rostrum [of the National Assembly]," admits Mr Juppé. "We had a period of some tension, some agitation, a few weeks ago. But things have got back into order.

"The [government] majority has never failed me on, for instance, the budgets or the laws on social security and creation of [private] pension funds."

Moreover, he insists, government economic policy commands wide support. "There is among the experts quasi-unanimity that [our] economic policy, the mix of budgetary and monetary policy in France, is the right one, regardless of Maastricht. Apart from the far left or far right, I don't hear anyone say we should increase the deficit and the debt by increasing public spending."

Look at the benefits, he says: "Inflation has been mastered, foreign trade is recording remarkable surpluses, the franc is stable, interest rates have come down faster than they have ever done in so short a time. We are at the same level as Germany even on long-term rates where there has traditionally been a sort of risk premium in France's disfavour.

"People's purchasing power, contrary to what they think, is rising, not falling, and consumption is holding up well. Our growth target for next year of 2.3 per cent to 2.4 per cent should be met."

But there are two black spots. The first is investment, which is stubbornly refusing to pick up despite lower interest rates and high corporate liquidity.

Mr Juppé blames "this climate of depression and anxiety" – though he turns out to be no better than anyone else at analysing rather just describing the current French gloom. He notes curious opinion poll findings that while a majority feels the country is going downhill, most individual French believe their own lot has improved.

The other cloud is "the setback on unemployment", staying at a record 12.6 per cent in October.

He is now pursuing two new tracks. One is to simplify and decentralise job creation schemes so that company bosses can understand, use them and adapt them to local circumstances.

Local mayors should see a self-interest in such initiatives, he says, "because a mayor who succeeds in placing the young in jobs can be assured of re-election". He should know, for Mr Juppé not only hopes to hang on to his job as prime minister he will be seeking re-election as mayor of Bordeaux in 2000.

The other track is to encourage a more flexible labour market. The prime minister knows this is a minefield in France where even debating the issue is "sometimes a bit explosive". But he says: "We have got to reflect on this simple question posed by many company heads. They say we have work, we could hire more young people, but we don't do it because it costs too much, is too complicated and constraining."

As Mr Juppé describes it, the challenge bears no resemblance to the one that faced Margaret Thatcher in 1980s Britain. It doesn't require what Mr Juppé calls "her authoritarianism" to break old fashioned union power.

In any case, he shies away from drawing lessons from modern Anglo-Saxon labour practices, stressing instead the need to remove legal and financial disincentives that deter companies from hiring more people.

These are long-term remedies. For the next year, Mr Juppé is banking heavily on economic growth – to provide jobs and help reduce the public deficit.

But is he really getting the deficit down? In 1997, public finances are being assisted by the controversial windfall of a FFr37.5bn ($7.2bn) pension-related payment from state-owned France Télécom.

Mr Juppé rejects suggestions that using this money to reduce the deficit represents sleight of hand. "This is a definitive receipt of the state. What do you want me to do with it? Not take account of it?"

He claims the only legitimate question "is what will we do in the following year [1998] to find an equivalent receipt" to keep the deficit down. However, he is confident of being able to do that, even accelerating tax cuts in 1998 if growth is strong enough.

In fact, Mr Juppé now seems less exercised about getting France into monetary union than about what happens when it gets there, particularly about Germany's terms for a stringent "stability pact" with set financial penalties for deficit overshoots.

"There seems to be the fear among some Germans that the euro will be less good than the D-Mark, so they desire safeguards everywhere," says the prime minister. "I think this should be settled through confidence-building measures, and not over-rigid mechanisms."

Arguing for Europe's politicians to have some guiding influence over the future European Central Bank (ECB), Mr Juppé gives a foretaste of the position he and President Chirac will take at today's Franco-German summit in Nuremberg – another expression of what he calls a crucial partnership.

"The basis of the French position is that we don't want all decisions on economic, budgetary, fiscal and monetary policy to be shaped by a technocratic, automatic system under the sole authority of the ECB," he says. "That is not our concept of democracy."

Germany is suspicious of anything smacking of political interference with the ECB. But Mr Juppé says he wants to see, at the European level, the sort of regular political dialogue between government and central bank that exists in Germany as well as in France and the UK.

France's "problem is that in the actual mechanism of Maastricht we do not see how the dialogue between the political power and the central bank will be organised. The central bank cannot decide everything solo, applying a set of figures. There needs to be an *interlocuteur*, a political power, the government leaders of the euro-zone who would meet periodically to fix broad lines of economic policy, dialogue with the central bank and give their opinion."

The French proposal "is in the spirit of the treaty", says Mr Juppé. "What we need to do in 1997 is to settle this mechanism – before we shift to the final stage of monetary union."

One job of this "political power" would be to influence exchange rate policy for the euro, an issue spotlighted recently by former president Valéry Giscard d'Estaing. Mr Juppé vehemently rejects his call for France to devalue the franc against the D-Mark and says he has himself drawn attention to the dollar's undervaluation against the franc. But the fact that Mr Giscard d'Estaing has strongly emphasised this point is perhaps "not unuseful" in sending a message across the Rhine.

And what of the prime minister himself? Does he really expect to be still occupying his elegant office in a year's time? "Unless I break a leg or something falls on my head, yes."

· OBSERVER ·

Full time for Havelange

■ The top job in international soccer comes up for grabs only rarely. So there was much stirring in the sport's upper echelons after Joao Havelange said he planned to resign in 1998 as president of Fifa, the world football authority, after more than 20 years in the job.

Despite criticism of his autocratic style, Havelange led football into the commercial age, attracting multinational sponsors, and won the backing of developing nations by allowing more of them into the World Cup finals. The 80-year-old Brazilian millionaire may also have picked a canny moment to blow the final whistle.

His chief critic and rival, Lennart Johansson, president of European football union Uefa, last month smudged his copybook with allegedly racist comments in a Swedish newspaper. Johansson has long criticised Havelange for selling television rights for the World Cup too cheaply – at one point they were fetching seven times less than rights to the Olympic Games – and for his secrecy. Few people know quite how much money Fifa has, or what it does with it. But with nearly 50 [illegible] the Fifa congress, the racism furore could seriously reduce Johansson's chances of becoming Fifa's next boss.

Franz Beckenbauer – German star of the 1960s and 1970s, now president of Bayern Munich and a regular on the Austrian ski slopes – is one other candidate thought to be limbering up for the succession contest. The post certainly carries its perks; Havelange's nickname among England players was Heavy Lunch.

Options open

■ William Brodsky, long-time president at the Chicago Mercantile Exchange, is moving across town to take the chair of the Chicago Board Options Exchange, the world's largest equity derivatives market.

Going from number two at the CME to the top post at the options exchange should be a refreshing change for Brodsky, a 52-year-old lawyer who worked at New York's American Stock Exchange before arriving in Chicago. For most of his 14-year tenure at the CME, he played second fiddle to two strong bosses – first Leo Melamed and now John "Jack" Sandner, the CME's current chairman.

Brodsky is also moving at an opportune time. Equity derivatives, the CBOE's speciality, are reckoned to be the next hot area for innovation in global financial markets. Known as a careful administrator and a specialist in securities law, Brodsky should have the experience and contacts to make the most of any boom. His loss is certainly a blow to the CME, which stands to lose the services of chairman Sandner in 1998.

A right turn

■ Bob Lutz, one of the US auto industry's most colourful figures, is stepping down as number two to Chrysler chairman Bob Eaton. But although he hits 65 next February – Chrysler's "mandatory retirement age" – the former US Marine pilot seems to be as unwilling to give up car-making as he has been to give up his flying. While Lutz is handing over the president's title to Eaton, in exchange he becomes a vice-chairman and will remain involved in product development for up to two years.

The son of a Swiss banker, Lutz worked at General Motors, BMW and Ford before being hired to Chrysler in the mid-1980s by Lee Iacocca, the most famous Ford defector of all. Although he was passed over for the top job when Eaton was hired from GM, Lutz restrained his famously abrasive nature and bent himself to the number two job. The partnership with Eaton turned out to be one of the most successful management double-acts of the mid-1990s, a period when Chrysler has outshone most of its US and international competitors.

So Lutz's career, which has taken some sharp turns along the way, seems to be ending on a high. There is certainly no need to question the man's survival instincts: he has crashed two aircraft in the 1990s, but keeps coming back for more. Is that what they call the right stuff?

Acid wit

■ Torrential rain reminded delegates at this weekend's hemispheric summit on sustainable development in Santa Cruz, Bolivia, that man is still at the mercy of the elements. The tropical downpour almost washed away the gathering and caused long delays to the flight bringing US vice-president Al Gore, who was due to make the keynote inaugural speech.

It was left to the host, Bolivian president Gonzalo Sanchez de Lozada – known for his dry wit in a region where humour is a rare among heads of state – to turn potential disaster into a timely warning. Declaring the summit open he remarked: "Let us just thank God that the cause of our problems today isn't acid rain."

The Financial Times

100 years ago

Socialism In New Zealand
In New Zealand matters political, financial and commercial are becoming even livelier than usual, which is saying a great deal. After having come out of a banking scandal by means of committees amply supplied with whitewash, the Colony is indulging in the luxury of a General Election, the issue of which will be pregnant with significance. The present Government has been discredited in many ways, not only on account of its Socialistic proclivities, but also through a number of glaring commercial and financial scandals.

50 years ago

World Bank Changes
Mr. Eugene Meyer's resignation from the presidency of the World Bank is most surprising. It is only six months since he gave up his position as publisher of the Washington Post in order to take over this task. Whatever criticisms of Mr. Meyer's tenure of office may be advanced by gentlemen of Washington who have never made a dollar beyond the portly salaries paid them by vast institutions, he has a rare combination of banking and industrial experience which the World Bank ought to regret losing.

FINANCIAL TIMES
Monday December 9 1996

EU demand threatens world trade deal on IT

By Guy de Jonquières, James Kynge and Frances Williams in Singapore

Efforts to conclude a World Trade Organisation agreement to free trade in information technology (IT) products were thrown into doubt yesterday, after the European Union insisted any accord must be part of a package of other trade issues.

The EU demand, on the eve of the WTO's first ministerial conference in Singapore, was strongly criticised by the US.

Washington accused Brussels of vacillating over the IT negotiations. The US said the EU must be "unequivocally" committed to a deal and that there would be no IT agreement without full European participation.

Conclusion of the proposed agreement, which would eliminate tariffs on most IT products by 2000, has been billed as the highlight of the five-day meeting. Ministers are also set to discuss several politically charged issues, dividing rich and poor countries.

The most contentious points include the links between trade, labour standards, foreign direct investment and competition policy, as well as liberalisation of trade in agriculture and textiles.

The US-EU dispute broke out after both sides had said negotiations were making good progress. The row was triggered by Mr Hans-Dietrich Beseler, deputy head of the European Commission's external relations directorate, who told Mr Renato Ruggiero, WTO director-general, that conclusion of an IT agreement must be linked to progress on the other issues.

Search for common ground ...Page 6

An EU spokesman said that if WTO ministers reached an IT deal, but could not unite behind a strong political declaration on the other issues, their meeting would be "a disaster".

Ms Charlene Barshefsky, acting US trade representative, said she did not "remotely accept" any linkage between an IT agreement and the WTO ministerial declaration. She criticised the EU's attitude to the IT talks, saying: "One day they are interested, one day they're not interested."

The EU accused Ms Barshefsky of trying to deflect attention from shortcomings in the US negotiating offer in the IT talks. It said Washington was balking at cutting tariffs on products, including optical fibres and some electronic components.

Earlier, the US signalled it had softened its stance on trade and labour standards, a highly controversial issue, which has pitted Washington against most developing nations and some industrialised countries in the WTO.

However, the limited US willingness to compromise is likely to disappoint the international trade union movement which has consistently pressed for a full "social clause" in the WTO.

Britain will reject 'phoney' IRA ceasefire, says Major

By John Kampfner in London

Britain will not accept a "phoney ceasefire" from the IRA, Mr John Major said yesterday on the eve of Anglo-Irish talks seen as a last attempt to breathe life into the search for progress in Northern Ireland before the British general election.

Giving a pessimistic assessment of the prospects for peace, the UK prime minister said he was "not going down the fake path" as he did in August 1994 when the IRA issued its first ceasefire declaration. "I have done that and have been betrayed," he said.

The tone of his comments appeared to confirm forecasts in London and Dublin that the talks today in Downing Street between Mr Major and his Irish counterpart, Mr John Bruton, are unlikely to do more than paper over the cracks in the peace process.

The Irish responded angrily to Britain's response 10 days ago to joint proposals for ceasefire terms by Mr Gerry Adams, president of Sinn Féin, the IRA's political wing, and Mr John Hume, leader of the moderate nationalist SDLP who had offered himself as a go-between.

"We are not in a row situation," said an Irish official, "but there's not much goodwill at the moment. There's a prevailing view that this present government has just about given up on the process."

British and Irish security forces believe the chances of a terrorist "spectacular" on the British mainland or in Ulster in the pre-Christmas period are greater than the prospects of a ceasefire declaration. They also say the next attack could lead to resumption of violence by loyalist paramilitaries.

Mr Major, speaking on BBC television's *On the Record* programme, said he would rely on intelligence reports to ascertain whether the IRA had followed up any ceasefire declaration by stopping targeting of potential victims, training of recruits and procurement of weapons.

He sought to counter accusations by nationalists in Belfast and Dublin that the UK had no intention of ever letting Sinn Féin into multi-party negotiations. When satisfied a ceasefire was "sustainable", Mr Major said, "I'll be as firm an advocate as Sinn Féin are themselves of getting them into talks".

US stocks due for nervous start today

Continued from Page 1

in which he asked: "How do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contradictions?"

Given low inflation and signs that US corporate earnings will continue to grow next year – albeit more slowly than this year – Mr Jeffrey Applegate, chief investment strategist at Lehman Brothers, does not see shares as wildly overvalued. He does think the US market could give up 2 to 3 per cent by the end of the year.

However, Mr Laszlo Birinyi, president of Birinyi Associates, a US equity research firm, said it may have been a good thing to inject some realism into what had become a rosy scenario for the markets since elections last month.

"The laws of gravity still hold, and so do the laws of the market," he said.

Yesterday Mr Robert Rubin, US treasury secretary, said that Mr Greenspan was simply seeking to "widen the intellectual debate...about the level of the market", not offering his own opinion about appropriate valuations.

Mr John Lipsky, chief economist at Salomon Brothers, suggested that Mr Greenspan's words carried special importance in Japan where the government's shift in monetary policy was triggered by a "bubble" in the financial markets. He added, however, he believed the Fed chairman was signalling just the opposite: that Fed policy would not be driven by the financial markets.

Serbian opposition vows to widen its protests

By Laura Silber in Belgrade

Serbian opposition leaders yesterday vowed to broaden their protests against President Slobodan Milosevic as the country's supreme court seemed likely to reject an appeal to reinstate opposition municipal election victories in several cities.

Tens of thousands of demonstrators yesterday marched through the centre of Belgrade, the capital, jeering at state television and other symbols of Mr Milosevic's regime and finally placing a wreath at the doors of his office declaring "the death of justice".

"Our protests are getting bigger every day. They are spreading to other Serbian cities," said Mr Zoran Djindjic, president of the opposition Democratic party.

The court, widely seen as an instrument of Mr Milosevic's regime, did not officially announce its decision, but lawyers for the opposition coalition Zajedno (Together) said they that expected to lose all 33 appeals for the restoration of opposition victories.

The initial decision by a municipal court three weeks ago to cancel opposition victories in the November 17 election in key cities, including Belgrade, has provoked the biggest challenge to Mr Milosevic's stranglehold over Serbia since he came to power in 1987.

Zajedno leaders regard the student and opposition demonstrations, which have brought the Serbian capital to a standstill, as a turning point in Serbia, regardless of whether Mr Milosevic reinstates their electoral gains.

"We have managed totally to isolate Mr Milosevic internationally," said Mr Djindjic, who would become the first non-communist mayor of Belgrade since the second world war if opposition wins were reinstated.

"These protests are a huge investment in the future. This is the first time the opposition has rallied 100,000 people each day. Never before have 20 Serbian cities been united in a single protest movement."

Western governments have denounced the annulment of the elections. The European Union postponed indefinitely preferential trade status for Serb-led Yugoslavia, and the US has put on hold any moves to renew full diplomatic relations.

So far Mr Milosevic has offered no public reaction to the demonstrations. Last week he granted one concession, reopening two out of three independent radio stations which had been banned.

THE LEX COLUMN

Rushed money

Today is the fifth anniversary of the Maastricht summit which launched Europe on the path of monetary union. But as Europe's leaders prepare for this week's Dublin summit, argument still rages over Emu's merits. Is it a good idea in principle? Is it being rushed? More parochially, should the UK sign up? The answer to all three questions is yes – but not for the reasons normally cited.

Too often, Emu's advocates do little more than point out that businesses will no longer pay commission for converting francs into D-Marks or lire into pounds. True, but trivial. The more important point is that Emu will underpin Europe's single market. Fluctuating currencies create uncertainty which adds to the cost of doing business across frontiers. Under Emu, businesses would increasingly view Europe as a single market rather than a series of national ones.

This matters because a bigger market with fewer barriers would be more competitive. That is not simply good for consumers but, in time, will be good for business too. Companies that can thrive and enjoy the economies of scale of a more complete single market will be well-placed to win business in global markets. One only has to look at the fragmentation of industries such as telecommunications, defence and entertainment to see the handicap Europe faces by comparison with the unified US market.

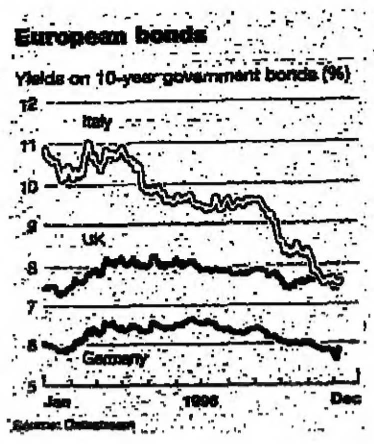
Premature project

Such benefits, of course, are not cost-free. The price is a one-size-fits-all monetary policy. Under Emu, nations will no longer be able to use interest and exchange rates to manage the ups and downs of the business cycle. That would not matter if European industry were flexible enough to absorb shocks to the system. But this is not so, largely because of Europe's notoriously sclerotic labour practices. As a result, a common monetary policy risks inflicting more unemployment on a region with too many people already out of work.

If Europe's leaders were focusing on the need to reform labour practices and restructure industry, one might have confidence that everything would be all right on the night. But they have been sidetracked by the notion that all they need do is fix their budget deficits. Low deficits are desirable in themselves. But they are neither necessary nor enough to ensure a pain-free Emu. France's recent budgetary fiddle is hardly edifying; but not as worrying as caving into striking truckers and botched privatisations.

European bonds

Yields on 10-year government bonds (%)



Source: Datastream

Why then is everybody, especially Germany, so concerned about budgets? Because they fear excessive borrowing will push up inflation and interest rates. Such worries are not groundless, but they are exaggerated. Deficits only feed inflation directly when states print money to finance them. But under Emu, governments will not be able to do this. They will have to persuade capital markets to lend them every single euro they spend which is not raised in tax. The discipline of the markets is more effective than the discipline of bureaucrats.

Unfortunately, current plans for a so-called stability pact to restrict budget deficits post-Emu are not just redundant. They could actually make matters worse because governments will lose control of fiscal policy – the one instrument they have left for absorbing shocks.

An Emu with fiscal straitjackets and inflexible markets would be bad for growth – and so probably negative for equities. It could still succeed if governments reacted to rising unemployment by reforming labour practices. But they might also react by abandoning the project entirely – a risk not fully reflected in bond markets, where yields for traditionally high-inflation countries such as Italy are only two percentage points more than for low-inflation Germany.

It would be far better to postpone Emu by five to 10 years and use the intervening period to make the necessary labour and industrial reforms. Politicians worry that the momentum behind the project would vanish. But, if a new timetable with new criteria linked to achieving structural reform were adopted, that need not be so.

Britain's opt-out

Where does this leave the UK? If Emu is being rushed, surely it should exercise its right to opt out? It could then avoid a messy start, and opt in, if and when things were cleaned up. Such an approach is superficially attractive. But it is based on the misapprehension that the UK would face significant damage if it joined a premature monetary union. True, countries with inflexible practices will pay a hefty price. But Britain is not such a country. Ironically, it is probably the only big European country with sufficiently flexible markets to embark on the project.

Moreover, if Britain stays on the sidelines, it will miss out on the benefits of Emu. The most obvious are the lower long-term interest rates that would come from taking a piggy-back on Germany's 50 years of anti-inflationary credibility.

Easier access to the single market could be even more valuable. UK industry is now fitter than its Continental counterparts. Especially in sectors like transport, support services and telecoms, it is well-placed to thrive in the more competitive single market that Emu will underpin. But opting out – leaving UK business virtually alone in facing a currency frontier – will hinder it from grasping that opportunity.

What about the risk that the UK will have to adopt Europe's high social costs if it signs up to Emu? This bogey is often wheeled out to frighten business. But there is no legal requirement for Britain to implement minimum wages and the like on joining monetary union. Nor would it help the rest of Europe to hobble the UK in this way: France, for example, would not find it any easier to absorb shocks just because Britain was similarly crippled.

That said, the best way to ensure the rules of the game do not disadvantage the UK is by drafting them. And that is probably the best reason for being in Emu from the start, unlikely though that is. If Britain were seen as a founder member, it would have more influence on how the stability pact was framed, who should be admitted in the first wave and, indeed, whether Emu should be postponed. If it opts out, it will have little say in how the system develops and who joins further waves – not to mention any subsequent moves to political union.

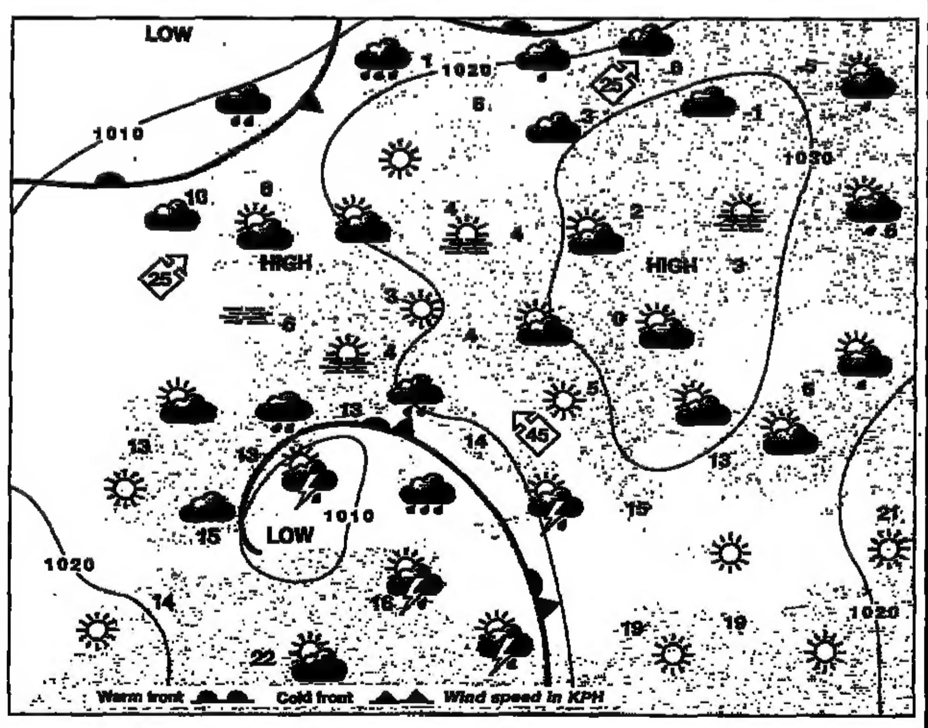
FT WEATHER GUIDE

Europe today

High pressure over the Baltic means most of mainland Europe will be settled.
Most areas will have mist with some dense fog in places.
The exception will be the western Mediterranean, where a low pressure system will produce heavy cloud and rain in eastern Spain, southern France and western Italy. Temperatures over much of Europe will be about normal for the time of year. Only in western Ireland, Spain, southern Italy and Greece will they exceed 10C.

Five-day forecast

Most of Europe will continue misty. The low pressure in the Mediterranean will slowly move east, bringing heavy rain to Italy.
It will remain cool with some frost at night.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius				
		Beijing	sun 4	Caracas	sun 32
		Belfast	drzzl 10	Cardiff	cloudy 4
Abu Dhabi	sun 28	Belgrade	sun 5	Casablanca	cloudy 15
Accra	shower 30	Berlin	fair 2	Chicago	fair 2
Algiers	rain 15	Bermuda	fair 24	Cologne	fair 5
Amsterdam	hazy 2	Bogota	sun 25	Dakar	fair 30
Athens	fair 15	Bombay	fair 33	Dallas	sun 20
Atlanta	fair 10	Brussels	fair 3	Delhi	sun 23
B. Aires	rain 18	Budapest	fair 4	Dubai	sun 28
B.ham	hazy 3	C.hagen	fair 4	Dublin	drzzl 10
Bangkok	cloudy 34	Cairo	sun 21	Dubrovnik	fair 16
Barcelona	rain 13	Cape Town	fair 21	Edinburgh	drzzl 9

Faro	sun 16	Madrid	cloudy 10	Rangoon	rain 32
Frankfurt	sun 2	Majorca	rain 13	Reykjavik	snow -1
Geneva	fair 4	Malta	shower 18	Rio	shower 35
Gibraltar	fair 15	Manchester	hazy 5	Rome	rain 18
Glasgow	drzzl 10	Manila	thund 31	S. Frsco	rain 15
Hamburg	fog 3	Melbourne	fair 19	Seoul	sleet 0
Helsinki	fair 7	Mexico City	shower 32	Singapore	thund 30
Hong Kong	fair 20	Miami	fair 20	Stockholm	cloudy 6
Honolulu	fair 26	Milan	rain 5	Strasbourg	sun 1
Istanbul	fair 12	Montreal	cloudy -1	Sydney	fair 23
Jakarta	thund 32	Moscow	cloudy -1	Tangier	cloudy 15
Jersey	fog 7	Munich	sun -1	Tel Aviv	fair 19
Karachi	cloudy 27	Nairobi	fair 25	Tokyo	fair 12
Kuwait	sun 28	Naples	shower 15	Toronto	snow -3
L. Angeles	fair 19	Nassau	sun 22	Vancouver	rain 7
Las Palmas	rain 21	New York	fair 3	Venice	rain 7
Lima	shower 22	Nice	rain 13	Vienna	fair 5
Lisbon	sun 14	Nicosia	sun 17	Warsaw	fair 2
London	fair 5	Oslo	fair 2	Washington	fair 2
Lux.bourg	fair 0	Paris	fog 3	Wellington	shower 19
Lyon	fair 2	Perth	sun 29	Winnipeg	snow -5
Madeira	fair 20	Prague	sun 0	Zurich	fair 3